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DEVELOPMENT WITH DIGNITY

A case for full Employment

AMIT BHADURI

Popular Social Science

DEVELOPMENT WITH DIGNITY

A case for full Employment

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National Book Trust, India

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Preface

This book deals with the economic challenges thrown up by the process of interaction between democracy and economic development in India since her independence from British rule in 1947. Given that India is a very poor country with enormous diversity in terms of religion, language, and ethnicity, the gradual maturing of Indian democracy has been a remarkable achievement, almost unparalleled in political history. But this remarkable achievement has also been fatally flawed by our unforgivable failure to deal in an effective manner with mass poverty and illiteracy and various forms of religious, social and gender discrimination. These problems are inter-connected, irrespective of whether one likes to put the responsibility on the failure of planning by the state or on the failure of the market. Neither the traditional Left nor the traditional Right seems to have a coherent and satisfactory answer, or a vision of the course for the future development of India.

Arguably, the vision is worth little, unless it shows how to eliminate rapidly mass poverty and illiteracy, and overcome simultaneously various social barriers arising from caste, religion and gender prejudices. To pretend that market-oriented high growth in a globalised world, or bureaucratic state intervention with centralised

planning can achieve this, is no longer credible. We know this from experience, and we must have the courage to learn from this experience. Based on economic reasoning and political analysis, this book provides this alternative vision, and some concrete steps needed to initiate the process in clear, non–technical terms. It does not simply construct an Utopia; instead, based on economic reasoning, and statistical facts, it argues that such an alternative path of development is indeed feasible even within our political system despite all its shortcomings. The aim of this book is to chart out this road ahead—the destination of that road is to ensure that all citizens of India live with economic, social and political dignity. This is captured by the title, *Development with Dignity*.

It is our biggest challenge. Meeting this challenge is the compulsion of our democracy, the temper of our time. The reason why this challenge has not been taken up is our inability to go beyond the conventional discourses in economic development. And yet, the purpose of intellectual work is to be able to imagine such an alternative, and show how it can be made feasible. This book does precisely that.

In writing this book, I had the constant support and encouragement from Madhu Bhaduri. She convinced me that this non-technical book should be written, and without her enthusiasm this book would not have been written. Aruna Roy, Nikhil Dey, Jean Dreze and Arvind Kejriwal, mostly unknowingly through their activism, and occasional discussions, forced me to think systematically about a range of issues discussed here. Bipan Chandra has all along been most enthusiastic and supportive. I am most grateful to all of them, but take full responsibility alone for the views and arguments presented here.

New Delhi
14 September, 2005

AMIT BHADURI

I

DEVELOPMENT WITH DIGNITY: No Utopia

An ancient civilization, an old country with a long history, India emerged as a relatively young nation state in 1947. That was the year India became independent from British colonial rule after a mostly non-violent epic anti-colonial struggle under the leadership of M.K. Gandhi. The ideology of nationalism, which was the driving force of all anti-colonial struggles, is a particularly complex concept in India. Indian nationalism had to be forged from a bewildering diversity. India is fabulously diverse, not only in geography and climate, it is also probably the most diverse country in the world in terms of religion, language and ethnicity. Of the total Indian population of nearly 1.07 billion in 2004, about 11 percent are Muslims. Hindus are numerically the largest religious group (80.5 percent), but many other religious groups, like the Christians (2.3 percent), the Sikhs (1.9 per cent), the Buddhists (0.8 per cent) and the Jains (0.4 per cent) form significant religious minorities. Moreover, the numerically dominant Hindus are stratified by a caste system, which finds no place for 'outcastes' or Dalits. Even after sixty years of independence and many laws meant to correct this centuries old oppression, it still remains

one of the biggest sources of injustice in India. Similarly, many tribes, some of the oldest inhabitants of India, remain oppressed, and badly exploited despite the written laws.

India is also a country of enormous linguistic diversity. It has some sixteen major languages, often with different scripts, and over five hundred major dialects. Although multilingual, India chose the numerically dominant Hindi language as the language of the Indian state. India continues to rely on English as the all-India link language for administrative communication, and also for imparting higher education. In turn, *this* has created a linguistic divide and inequality of opportunities between those who know and those who do not know English.

It is almost unique in modern political history that despite many tensions generated by her multi-religious multilingual, multiethnic and multicultural character, this huge country has managed to consolidate itself increasingly as a nation state over time. In the early years of independence, the common focus of an anti-colonial struggle acted as a binding force. The hopes of a better economic and freer political life which independence from foreign rule brought with it, acted as a further catalyst in this process. Over the last six decades since independence, some of these hopes and aspirations have been partly realised; others badly dashed. The story of the post-independence India is one of spectacular success combined with unforgivable failures.

This vast and poor country, immensely diverse in language, religion and ethnicity, has managed to consolidate gradually its democratic system over the last six decades. By any standard, this stands out as a most remarkable achievement. The achievement is even more striking because Indian democracy has been functioning

in the context of a very poor country. Countries of Western Europe, the U.S. and Japan were able to sustain a democratic political system based on universal suffrage at levels of income which were much higher. Their democratic systems started functioning at a minimum per capita income level of roughly speaking US dollars 2500, compared to India's less than 100 dollars at the time of independence (at the exchange rate then prevailing). India has shown that it is possible to maintain, sustain and strengthen a functioning democracy in a very poor country despite enormous diversity in terms of language, religion, culture and ethnicity. It is indeed a spectacular achievement unparalleled in political history. And yet, it remains a grossly flawed achievement.

Our unforgivable failure has been the persistence of mass poverty and destitution. It is a matter of utter shame that nearly six decades after independence, we have anywhere between one-third to one-fourth of our people desperately poor and denied of the minimum conditions for human existence—the largest number of illiterates, millions of children crippled or blinded due to mal nourishment. At the end of the twentieth century, according to one estimate, India had 260 million people or roughly one fourth of its population under the so-called 'poverty line', the very minimum needed for existence. Of them; nearly 200 million are in rural areas and the rest in urban areas. Another estimate suggests that more than one in three Indians live in abject poverty, spending less than 1 US dollar a day in terms of purchasing power parity (the concept of purchasing power parity is explained later in this chapter).

But the number of persons below the poverty line hardly tell the sad story of the failure of our system. For this, we may use another summary statistic, the so-called

to less than 10 per cent of the Indian labour force, it is the most sought after avenue for upward mobility. Total employment growth in the organised sector almost steadily went down over the last two decades of liberalisation. From some 2.6 per cent in 1981, it was down to 1.1–1.5 during the mid-1990s, and it has turned negative since 1998. With an employment scenario like this in the coveted organised sector, it is hard to imagine that hopes of upward socio-economic mobility can be sustained by many for long.

Due to various problems of measurement, it is far more difficult to come to reliable estimates of employment opportunities in the non-organised sector. For example, poor people might work very long hours, but earn so little per hour that they could be considered time-disposition-wise employed, but income-wise unemployed. Similarly, due to lack of steady employment they might eke out an existence from many part-time irregular jobs. These are some of the typical problems of measuring how serious the unemployment problem is in the unorganised informal sector of the Indian economy, which spreads across almost the whole of agriculture, most of small industries, and a large segment of the service sector. Some officially estimated figure, reporting unemployment at around 2-3 per cent due to these measurement errors is generally recognised to be ridiculously low. A fairly conservative estimate would put the figure at about 7-8 per cent, with most new employment occurring in neither agriculture, nor industry but in services. This is true both in the urban and in the rural areas.

On the face of it, this does not sound so bad, until one digs deeper. Our rising star of information technology, along with banking, insurance, and other financial services mostly belong to the organised service sector. As

we have already seen, the overall employment performance of this sector has been dismal, with negative employment growth. Unorganised services in the informal sector tend to absorb people who find no regular job. It acts as a dumping ground. Yet there seem to have been a little observed pattern in it across most of the states of India. It brings to sharper focus the gloom surrounding the unemployment problem in India. Generally speaking, the poorer the state is in terms of per capita income, the larger is the ratio of labour productivity in the service to the non-service sector. For example, most of the poorer states like Bihar and Madhya Pradesh have labour productivity (earning) in services about 3 to 4 times higher than in agriculture. This figure is considerably higher than the all India average. This means agriculture is so over-crowded and devoid of earning opportunities in these poorer states, that even selling peanuts on the streets brings more income! For disguised unemployed in these poor states, agriculture is an even worse dumping ground than services.

The bleakness of the picture of employment generation is intensified by another factor, the commercialisation of the agriculture of small farmers without state support in the course of economic liberalisation. The World Bank's showcase of Andhra Pradesh with its glitter of information technology based industries was the brightest star in skyline of "shining India" campaign of the then coalition government in power in the 2004 general election. There were occasional reports in the press of several suicides by indebted farmers, but the market-friendly policies of inviting foreign investment continued. Only when the state government was routed in the election, the total disillusionment of the ordinary people with such policies became apparent.

The disillusionment regarding upward socio-economic mobility arises on various counts, like lack of employment opportunities or mounting debt for different sections of the population. At the mezzo level of regional politics individual frustration coalesce into 'identity politics' of different sorts. However, although all political parties are involved in this political game of construction and manipulation of identities, they show considerable regional variations. The particular identity that would be taken on for projection and manipulation by a particular party depends partly on the social history of the region, and partly on the ideology and existing constituency of the party. In some region, caste divisions have become the rallying point of identity politics, and all other injustices and inequalities are translated into the digits of caste politics. Similarly, exploited tribal areas or people from the hills often insist on their separate identities. In some other regions, it is the local language, at times directed against Hindi as the official national language. More importantly, in several regions the divide between the privileged English-speaking 'outsider' to a state, and the non-English speaking 'insider' often becomes the basis of defining an identity of the "sons of the soil". It is a small step from the construction of identities to press for job or educational seat reservation on the basis of identities. Not surprisingly, India's immense diversity creates a bewildering variety of identities, and politicians try to manipulate them to their advantage in the game for gathering votes at any cost. However, an underlying link connects all the politics of identities, no matter how different they appear. It is the process of translation of individual disillusionment about socio-economic mobility into that of a group, defined on the basis of religious, language, caste, ethnicity or any other particular

identity. This has probably become the most fertile ground for regional politics, and any region can project its own special identity to make out a case of being discriminated against by the central government.

Given India's weak performance in terms of employment generation and poverty alleviation, the politics of identities could have strained far more seriously India's federal structure. However, this process has been blunted considerably by some unintended consequences of the coalition politics that emerged at the centre. Even a small regional party today has a chance of being represented at the centre. It is a partner in the ruling coalition, or has a possibility in the future if it belongs to the opposition coalition. The parties with strong regional identities and bases have developed a stake in the political power sharing at the centre as never before. We are observing a peculiar phenomenon in Indian politics, seldom noticed by commentators. Indian federal structure is stronger than ever before, but the central government is less powerful due to the push and pull in different directions by the coalition partners!

However, coalition formation at the central level requires a wider, arching identity. 'Nationalism' in the age of the nation state has become like the air we breathe in without being conscious, unless it is badly polluted. The BJP which aptly used to be described as a party of three Hs—Hindu, High Caste, and Hindi—constructed the identity of 'Hindutva' in the name of cultural nationalism to get out of these particular group identities. Congress, which had inherited the ideology of secular nationalism from the days of its anti-colonial struggle, could pose its version of nationalism as a counterpoint. But it began losing credibility, as it failed to act in critical times, and found it politically more convenient not to take

an unambiguous stand for secularism, like in the Sikh riots (1984), and in the Babri Masjid demolition vandalism (1992). The Left certainly has a better record on the communal front. Nevertheless, it has been reduced mostly to its stronghold in a few states, has long forsaken 'internationalism' based on class solidarity, and is usually as much a nationalist as any other party in its pronouncements, e.g. on some issues relating to the north-east states. The distinguishing feature of Left nationalism is marked by an economic component. It favours a bigger economic role for the state, and concentrates mostly on the rights of the unionised workers in the organised sector. However, the Left has failed to show how to combine its version of nationalism with pro-poor high growth policies. Its 'populism' like that of all other political parties in India derives from re-distributive patronage by the state. It has in fact accepted the dominant ideology of liberalisation and globalisation in the place of class solidarity and internationalism. Since the collapse of the Soviet Union, and the turn around in the economic policies of China and Vietnam, it has no alternative economic model to offer in its place.

Economic liberalisation and globalisation have opened up the Pandora's box of what should be the economic contents of our nationalism in India. Secular versus non-secular politics is a crucial issue, and is the focus of today's politics. It involves the critical issue of how to accommodate minority rights, which is a defining issue of any civilised democracy. Nevertheless, its economic content is relatively little, and we face the danger that in the guise of secular politics, pro-market and anti-poor economic policies that would compromise the long run development of India are being pursued.

At the centre of this ideology is the attempt to roll back the State to create more space for the private players in the market through liberalisation. Privatisation is based on an almost blind faith that the private sector is always better than the public sector. And, going a step farther, some people claim that foreign companies are invariably better than the Indian ones, wanting to increase unnecessarily our dependence on multinational companies, foreign consultants, and foreign investment to build our productive capacity, to update technology, or even our management. As a consequence, we put more emphasis on the international than on the national market as a necessary concomitant of globalisation. These are issues that face every political party today. They cannot be allowed to go by default. Nationalism is empty without defining clearly what its economic contents are, especially with respect to these pressing issues. Development with dignity intends to define and make operational this aspect of nationalism. Only along these lines we can provide an economic answer to the overwhelming political question: how to combine the reasonable economics of pro-poor high growth with feasible politics. Otherwise, words like 'nationalism' or 'patriotism' would be mere slogans devoid of content.

IV

DEVELOPMENT WITH DIGNITY: The Defining Issues

Both development and dignity for the poor are equally important for charting out a new path of development. The orthodox socialist model was largely based on mechanisms of income transfer from the state either directly or through providing some form of employment. This meant that every citizen had a minimum income. Every one was employed in so far as earning a regular income was concerned. However, almost all employment was in the over-crowded state sector, either in administration or in state enterprises. A standard joke even among workers in many socialist countries was, " They pretend to pay us, we pretend to work". Yet the system was marked by a high degree of state welfare. Everybody who had a job in this nominally full employment society was also entitled to social security in terms of health insurance, education for children, and old age pension, usually provided through the state enterprises employing them. From the point of view of equality in the actual standards of living, and leaving out the privileged party functionaries, the socialist countries in many instances achieved more, and provided more for the average citizen than most market economies do. Yet, equality through

economic democracy on which the socialist system laid utmost ideological emphasis turned out to be fatally flawed. It was flawed not only politically, but even economically. Politically, it failed to sustain a process by which economic and political democracy can gradually be brought closer to build a more just society. Neither economic equality nor political democracy alone is capable of giving dignity to all citizens. The two have to go together.

The emphasis on the economic with the neglect of political democracy in socialist countries is almost the opposite of the Indian experience. Democratic India, soon after independence, had put considerable emphasis on a programme of state-led industrialisation, but never managed to devise a way of moving towards a full employment society with access to basic health care, education and social security for all. This has remained true all along. India has given its citizens political rights, but not economic rights to a decent livelihood, with or without economic liberalisation. We also now know that neither market capitalism nor state socialism in their traditional versions can provide an answer.

On the economic front, the orthodox socialist model turned out over time to be seriously vulnerable. Income transfer through the state, which invariably results in heavy handed bureaucratic intervention, gave rise to two problems. Market-oriented economists rightly point out that it deprives the system of individual initiatives and incentives, and leads to growing budgetary problems for the state in terms of unsustainable subsidies. These points are greatly emphasised these days in the debate on the privatisation of public enterprises almost everywhere. This is not only the case in India, but also in the continuing economic liberalisation of China and Vietnam. As they

turn increasingly away from centralised planning and a state sponsored welfare system, they continue to adhere rigidly to the traditional one-party political system. Just as India is facing the dilemma of combining political with even a little of economic democracy, they are facing the opposite dilemma: the difficulty of bringing in even a small dose of political democracy while liberalising the economy.

Adhering to the one party system, and liberalising the economy at the same time, has given rise to a crucial difference in the experiences of the various socialist countries. As the one-party political systems collapsed in the former socialist countries of east Europe and the Soviet Union, the economic policies took immediately a sharp turn. This was propelled with vigour by the IMF, the World Bank as well as some reputed American universities. Their experts kept flying in and out of the recently collapsed socialist regimes, propagating a version of the market ideology widely prevalent in the United States. It asserts that political democracy means giving freedom to the individual to get rich. It is the fault of the individual if he fails to get rich in that free for all system. The market ideology prescribes the state to roll back by curtailing its economic and distributive activities as far as possible in order to create space and incentive for the 'able' individual to make money.

This world-view was diametrically opposite to the bureaucratised, state controlled economic life of the collapsed socialist regimes, and appeared extremely attractive even to ordinary people at first sight. The result was a form of raw capitalism, which created a handful of super-rich individuals. The newly rich class of oligarchs in Russia gained immensely from the privatisation programme by buying the assets of the public sector at throw

away prices through corrupt practices. They often exploited their old connections with the state and party apparatus. At the same time the roll back of the social security system of the state and of the public sector pushed a significant section of the population to economic despair and poverty, which people had never known before in the time of the bureaucratised socialist regime. Governments that followed these extreme policies, governed by the market ideology, were soon discredited in popular elections.

The picture looks somewhat different in China and Vietnam. They are following a different sequence by introducing market-oriented policies, which are nevertheless controlled strictly by the system of one-party-in-power. According to available statistics, inequalities have increased sharply among regions, among professions and among persons, with open unemployment appearing for the first time in both countries. Despite economic liberalisation being controlled by the state and the party apparatus, access to basic health and education is considerably worse now in many areas, and especially for those without regular state sector jobs. The Chinese sequence of economic liberalisation with virtually no political liberalisation does not seem to answer the question of how to reconcile economic with political democracy.

The experiences of transition from the centrally planned economies to the market system have an important lesson to teach us in India. There is a certain irony in these experiences, which is overlooked both by the enthusiasts for, and opponents of, Indian liberalisation. The irony stems from the fact that unguarded liberalisation, even when carried out under socialist slogans, breeds sharp inequalities, which have to be handled by the state.

The lesson for India could be uncomfortable. It results in a schizophrenic view about the role the state is expected to play in liberalising the economy of a developing country. On the one hand, the main thrust of the argument is to reduce the role of the state. On the other hand, the same argument also requires the economic role of the state to be strengthened for the purpose of promoting the market. It is argued that the state is inefficient and self-serving in conducting economic activities. It is, therefore, wiser to restrict its economic role to the minimum necessary. Based on this general perception, pleas are made for privatisation of public enterprises, bringing down the expenditure of the state in the name of controlling fiscal deficit and 'sound' public finance, reduction of tax rates to stimulate private initiative and corporate investment, ensuring the independence of the central bank (the Reserve Bank of India) by restricting the government from borrowing from the central bank (deficit financing), and a host of similar measures.

In the dominant ideology of today, these policies, which gets support from agencies like the IMF and the World Bank, are assumed to provide the magic key to the door for higher growth and prosperity. Nevertheless, the same view which distrusts the state for conducting its traditional economic activities, wants the same state to carry out without corruption, bribe and kickbacks far more complex economic tasks like privatisation, attracting foreign investment from multinationals, or prevent malpractices like insider trading in the stock market. It also believes that the legitimacy of the same otherwise untrustworthy state will not be compromised, because it can introduce labour market flexibility in a fair manner. One has to be bit of a schizophrenic indeed, indulging in a double vision of the state, to believe that the state

sector is incapable of running an enterprise or public utility, but perfectly capable of these far more demanding tasks! And, it is here that the lesson from China or Vietnam becomes important. They are managing to walk on a tight rope, liberalising the economy with increasing inequality, on the one hand, but keeping a strict control on all forms of political dissent, on the other, through a strong one party state. The state dictates the terms for economic liberalisation within the narrowly permissible boundaries of political dissent.

For instance, the workers usually have no right to strike, especially if it involves foreign investment. People displaced from their homes by large irrigation or industrial projects have no political right to represent their case. People in many regions have had no mechanism to protest against unilateral withdrawal of basic health care and educational services by the state, services that were granted in the earlier phase of the socialist regime.

This is different from the Indian scene. Our functioning democracy nurtured over the years permits dissent, at least in theory, with the result that India with its enormous diversity is also a country of 'a million mutinies'. This is our strength; this is also our weakness, in so far as it is not compatible with gaining economic efficiency rapidly. However, we can turn this apparent weakness into our invincible strength once we recognise that economic efficiency alone is not the answer to India's economic problems. The slow pace of our democratic decision making process is capable of being turned into a stable and viable participatory process to include the marginalised and the poor into many decisions that directly affect them.

The ramifications of a genuinely participatory democratic process are national as well as international. We

can look at situations both national and international in a different light. For instance, the race between India and China can be looked at as a race not merely of vulgar nationalism about which country grows faster, or becomes a superpower sooner. Our objective in India should be to chart out a path of development that looks at it differently. An objective, which combines participatory democracy for the people, especially the poor people of our country, with a high rate of pro-poor growth sustained over time. In other words, we are in the race of giving human dignity to all our citizens by bringing economic and political democracy closer in the shortest possible time. This must not be misinterpreted as a race of growing at the fastest possible rate at unbearable cost to the rights of the people, to our environment, to our democratic system, and to our sovereign freedom as a nation to develop in our own style. It also follows that the race is not one of attracting the maximum amount of foreign investment at any cost; instead we should take a view that is able to distinguish between investments that help or hinder in achieving our fundamental objective of development with dignity. This in turn requires a road map comprising of a different vision of the economy, the polity and the society to proceed towards this destination. A different economic model must underlie this road map. It has to have the potential of enhancing the growth rate, while widening and deepening the participatory democratic process in economic development. And, this cannot be achieved merely through the formal representational aspect of our democracy, which we have already achieved in this country.

The essence of a participatory democratic process in development lies in our ability to define an economic role for the poorest and the most disadvantaged, both as a

producer and as a consumer. The poor would not be the passive receivers of doles, but active contributors to the process of development. Our mindset must be changed to accept the reality that a patron-client relation between the state and its citizens is not desirable, perhaps not even viable in the long run. This is a central lesson to be learnt from the experience of the former socialist economies. At the same time, unimaginative market centred reform would be fatally flawed in India. Not only does it have a tendency to accentuate further inequalities in a democratic country with a vast poverty ridden population; the very design of market-oriented reform fails to recognise that without their active participation real development is simply not possible. Ideas like safety net or dole for the unemployed to soften the blow of market-oriented reform are not the answer, as they end up either with a patron-client model or with intolerable inequalities and economic marginalisation of an increasing number of poor people. Bringing a vast poor population under the safety net would put enormous strain on the resources of the government and the country, and would retard development without giving any dignity to the poor. It is not a question of what is at times described as the 'trickle down' versus 'bottom up' approach to economic growth and development. It is a misleading distinction.

Actually speaking, no authority, either of the state or of the market, should have the power to decide whether the benefits should trickle down or permeate up, because the benefits should follow from the participation of the people as their right. Therefore, the central issue is one of widest participation in the development process. It has to be characterised by the reciprocity of duty and the right for every citizen to participate and derive benefit from the process of development. This is also the fundamental

criterion by which alternative models of economic development have to be judged.

As in many other developing countries, in the Indian case also, two contrasting road maps, and two contesting economic models present themselves. The first invokes the idea that There Is No Alternative (or the TINA syndrome) to liberalisation of the economy at home and complete integration with the world economy through globalisation. It also implies acceptance of the WTO trade regime, the indispensability of large doses of foreign investment, and accepting with little noise the rules set by the rich and industrialised OECD countries. Its essential economic logic can be spelt out briefly. It relies on globalisation to increase the relative importance of the external vis-à-vis the internal market. Since the size of the total world market is certainly beyond the control of the Indian nation state, a case is made out for focusing on increasing our share of the world market. This may be achieved through greater international cost competitiveness, by measures like wage restraint, and higher labour productivity through downsizing, privatisation, banning strikes and similar measures. The basic logic is to apply the ideas of corporate management to the economy as a whole. The nation is a single corporation, the economy is meant to increase its international market share by out-competing rival trading nations through cutting costs, while taking the total international market size as given.

The reasoning underlying IMF's 'conditionalities' for 'stabilisation', or the World Bank's 'structural adjustment' package to developing countries conform closely to this view. However, as a general strategy, the reasoning is flawed, because the micro-logic applicable to a single corporation involves a serious macro fallacy that must

not be overlooked. It ignores the uncomfortable fact that all countries cannot be winners at the same time in the zero-sum game of competitive cost-cutting for producing an export surplus, and gaining a larger share of the global market. The policy must fail in many instances, because the export surpluses of some countries must mean import surpluses for other countries. Moreover, since most developing countries tend to produce a similar range of exports, the competition among them would be more acute with many losers among the developing countries. The only predictable outcome of this policy would be a 'race to the bottom' among developing countries, each acting in isolation to gain a larger share of the world market. In the process they would reduce wages, lengthen the hours of work for the same wage, restrict workers' rights, refuse pensions and social security and casualise regular employment in the name of labour market flexibility. All this would be justified in this model, because our share of the world market has to be increased.

The 'race to the bottom' in terms of making various concessions to the multinationals, at WTO negotiations, etc., would also appear in a different guise in the name of attracting foreign investment. It is widely argued by the supporters of this model that all forms of foreign investment is essential, as it brings in valuable foreign exchange and updates technology, management and skill. Those who have examined closely the experiences of market-oriented successful development would immediately recognise that this is a misleading oversimplification. Neither Japan after the second world war nor South Korea, more or less a decade after the Korean war, followed an open door policy towards foreign investment. As a general policy, they tended to update their technologies largely through purchasing licenses. It was

probably far more crucial in their case that the geo-politics of that time gave them almost unhindered access to the large U.S market for export to launch an export-led growth.

One must realise that development experiences are diverse, and foreign investment has helped in some cases but hindered in others the process of development. A main purpose of economic theory is to guard against such misleading oversimplifications to which politicians and opinion –making media are particularly prone. The issue is to have a clear understanding that increasing the volume of foreign investment is not an end in itself. It must always be judged in terms of its compatibility with our developmental goals without being carried away by simplistic slogans.

There are certain other aspects of the successful experiences of Japan or South Korea which are less controversial. Both countries invested heavily in developing social and economic infrastructure without depending on foreign investment. Japan invested nearly 40 percent of its budget for over more than a decade on social and economic infrastructure. India today is in a far more advanced state of technological capability and industrial development compared to the then Japan or South Korea to carry out such infrastructure development. Yet, it is surprising to hear the pathetic utterances of our politicians that rapid infrastructure development without foreign investment is not possible. This emanates from a false doctrine that the government does not have enough 'money' and the fiscal deficit must be low, despite the fact that the domestic economy might have the physical capacity to carry out this investment.

It is useful to distinguish here between foreign capital inflow through borrowing abroad at a given rate of

interest, and foreign equity investment. In the former case, the debt has to be serviced by paying interest in all circumstances, irrespective of whether the project makes profit or not. In that sense, it is 'debt-creating'. In the latter case of genuine equity investment, dividend is paid from profit, and there is no servicing obligation if the project fails to make profit, and the investment is 'non-debt-creating' in this sense. When foreign capital inflow is debt-creating and therefore, the debt has to be serviced in all circumstances, the argument about government having 'no money' becomes even less tenable. It is not reasonable to argue that the obligation to service debt to the foreigners is in any way less demanding than servicing domestic debt to the public; indeed the former is often more burdensome, because the debt servicing has to be done in foreign exchange.

Uncritical acceptance of foreign investment in the name of global integration has become a cornerstone of market-oriented reforms. It is hardly surprising that institutions like the IMF and the World Bank, and the rich industrialised countries encourage such policies because it is to their advantage. However, the question arises as to why our policy makers in a democratic country fail to have a more discriminating attitude towards this issue. To answer this question we must look at the more important hidden script of globalisation, seldom spelt out to the public. Arguably, the present phase of globalisation began around the middle of the 1970s with the deregulation of the major capital markets in the rich industrial nations. As a result, today the volume of private trade in foreign exchange, facilitated vastly by fast electronic transfers around the world, is a staggering daily volume of some 1.2 trillion (i.e. million million or 10^{12}) dollars. Less than two percent of this is needed at the most for

financing export and import, and even less for financing the current level of direct foreign investment. The daily volume of private trade in foreign exchange can easily overwhelm the foreign exchange reserve of any central bank. The combined reserve of all the central banks of the world put together is less than a couple of days' total volume of private trade in foreign exchange. Theoretically speaking, the entire reserve of all the central banks in the world could be wiped out by hostile private trades in a few days. This pre-dominance of private finance capital has become by far the single defining characteristic of the modern phase of globalisation. No wonder then that individual governments feel vulnerable.

Consider the Indian case in particular against this background of the global capital market. With a relatively small stock market or a relatively soft currency by international standard, the Indian rupee and Dalal Street can be set in an uncontrollable downward spiral due to capital flights triggered off by the speculation of a few important private players in the foreign exchange market. The Indian capital market is still not totally free. Bringing in finance is generally easier than taking it out. Nevertheless, the government remains wary of the sentiments of the traders, especially foreign traders in the capital markets. For instance, if some foreign institutional investors turn hostile and take out a part of their financial investments from the Indian market, it would dramatically bring down the stock market and the exchange value of the rupee. Even worse, it might trigger off a panic among ordinary investors who would then follow like a herd of sheep to turn it into a full-fledged financial crisis. All governments, including ours, have therefore become wary of sending unfavourable signals to the financial markets.

The other side of the story is no less true. A government can pretend to be doing very well economically by keeping the financial market and the large private players in the capital market happy through sending the right signals. In this the IMF and the World Bank play a critical but indirect role. If they look favourably upon the economic policies of a government in a developing country, private players in the market take it as a favourable signal. When the IMF or The World Bank says economic liberalisation is good, or that trying to attract foreign private capital and investment is good, but large government expenditure and fiscal deficits are bad in all circumstances, governments take the soft option of accepting the advice. Maintaining somehow a rising stock market through such financial market friendly policies that are often detrimental to the development of the real economy becomes the name of the game of good economic management. Media and the conventional academia join the chorus for their own reasons to create the impression that this is indeed the only game in town. The 'feel good' factor in the stock market, a good chit from the international institutions and credit rating agencies are viewed as synonymous with the well-being of the economy, and of the population, even of the poorer sections of the population! This is the hidden script of 'judicious' economic management in the present age of globalisation, as presented by the IMF and the World Bank. Sometimes one finds that even some of our elected representatives seem willing to play their role in the script.

We only need to recall the behaviour of the stock market. It went up in a frenzied bubble (resulting ultimately in the Harshad Mehta episode) to show its approval of economic reforms in 1992. The stock market suffered a massive post-election crash in May 2004 to

register its nervousness about reform, until the new coalition government's economic policies become clear. The injection and withdrawal of funds from stock exchange mostly by institutional investors, more in the latter than in the former episode, was the name of the game.

However, at least in the Indian context, this model and this style of economic management can succeed at best only temporarily. It is not by accident that, economic policy makers playing by this script were rejected by the people in the elections. The Congress dominated coalition, which prided itself in 'reforming' the economy lost the general election in 2000. The BJP led coalition, which saw India shining through the glasses of the stock market did no better in 2004. Supporters of economic policies that bypass the ordinary people, and end up pretending that the well-being of the stock market is the well-being of the nation should not expect to do better either.

However, if we do not agree to play the global game by these rules of biased against the ordinary, poor Indian, we must be in a position to set out an alternative road map to our destination of development with dignity for all in the shortest possible time. This alternative model begins with the recognition that increasing the relative importance of the external compared to the internal or domestic market through an uncritical acceptance of globalisation is not an advantage for us in the present stage of development of India. We must seek an optimum degree of openness to suit our situation, compatible with the objective of participation by the poor in the development process. It begins with the recognition that, although the size of the world market is beyond the control of our national government, the size of the domestic market is not given. The size of the domestic market depends critically on the level of government as well as

private expenditure. And, contrary to the view that the government should have a minimum economic role, we have to design a scheme for fruitful economic engagement by the people with the help of the government.

The greater emphasis on the domestic rather than the external market would have two consequences, especially favourable for the population at large. It would liberate economic policies from the obsession with cutting costs at the expense of wage, employment and social and economic capital formation to the detriment of the well-being of the ordinary people. It would also help us focus on the real issues of development, the most important among them being rapid expansion of economically productive employment. Moving rapidly towards a sustainable full employment society is the only way available to attain the goal of participatory development. Its by-product would be elimination of poverty, and sustained, pro-poor growth where everybody has a right to live like a human being with dignity.

It has already been pointed out, that our higher GDP growth in recent years has failed to create sufficient jobs. The reason for this nearly jobless growth is simple. Output or GDP growth comes from growth in labour productivity, i.e. output per worker plus growth in employment. When labour productivity grows nearly as fast as output, employment growth becomes almost zero. To raise employment growth, two broad strategies are needed. First, we must raise output growth by expanding the size of the domestic market. And second, we must learn to look at productivity growth from a different angle. Globalisation and emphasis on the external market predisposes us to look upon labour productivity only as a cost cutting measure. Chief executives of corporations never tire of saying that they want their corporations to

be "lean and hungry without fat". Their usual way of achieving it is to 'downsize' the labour force. For instance, if half the employees can do the same amount of work, and wages do not double at the same time, labour cost is reduced, and therefore the cost of production. This cost reduction is important for corporations to increase their market share and their profit margin. The same logic applies if economic policy makers focus only on the external market for increasing our share of the global market.

Once we recognise the importance of the domestic market, this corporate logic of management for increasing labour productivity does not apply. It is easy to see the inherent fallacy of composition in this corporate view of management. Suppose all corporations in the economy downsize their labour force by half, and the total employment drops to half. If wage remains the same, labour cost reduces also by half, because each person produces double the amount but gets the same wage as before. With employment reduced by half, the total wage bill is reduced also by half. As a result, domestic purchasing power and the size of the domestic market are reduced, when investment and export do not rise to compensate for the loss in consumption expenditure. The problem that the corporations would now face is the lack of a market to sell their products. Therefore, even if their profit margin per unit is higher due to the lowering of the labour cost, they might well end up failing to sell a large part of their production and making less rather than more total profit.

The downsizing of the labour force is an example of how the micro-economic logic of corporate management differs from the macro-economic logic of managing the whole economy. It is not simply a matter of the change of scale. The essential economic logic becomes different due

to the possibility of this "fallacy of composition". It simply warns us that the part of an economy such as a corporation, is not the same as the whole. There are indeed many such examples. A reduction in the wage rate by one individual firm might benefit it, but when all firms take recourse to cutting wages, it leads to a lowering of total demand in the domestic market with adverse consequences for the profits of all firms. Similarly, more advertisement might help a firm to increase its market share provided others do not follow suit. In formulating economic policies, it is essential to avoid confusing corporate or household management with the management of the economy. This confusion stems from the failure to see that major macro-economic variables like labour productivity or wage invariably have two-sided roles in the economy. They affect both cost and demand.

It will now be realised that the extent to which we emphasise the cost in relation to the demand aspect depends on the relative importance we place on the external and the internal market. As soon as we focus more on managing the internal market, a different set of issues assumes the centre stage of policy. Instead of the obsession with cutting costs and restraining wages to improve our international competitiveness, we face the problem of how to create an expanding domestic market involving the poor and the economically marginalised. This should be the central question requiring an answer from the alternative model of development.

Globalisation has caused this alternative model to recede in the background. At the present juncture, adequate support for it is lacking from the confused state of our so-called Left politics in India. On the other hand, the Chinese or Vietnamese style socialism seems to have thrown the baby of economic equality away with the bath

water of central planning. As bureaucratic central planning failed, they turned their attention away from the development of the domestic market for the poor. The result has been growing inequality and marginalisation of a significant section of the population in these countries despite rapid growth. As a consequence, they are depending increasingly on the authority of the party in power rather than on participatory democracy to keep the political scene stable, while propelling market-led growth. We require the confidence to think clearly and differently.

We need to reject these paths as not relevant for our problems in our special circumstances of a poor but a democratic country. The majority of the poor people in India would undoubtedly support an alternative model of development less dependent on globalisation, the external market, and a view of 'economic efficiency' which boils down mostly to cutting costs at the expense of the poor. The core of the alternative model, which relies more on the expansion of the domestic market for growth through participation and productive employment of all, will win the support of the majority of Indians. From their daily experience of living they would recognise that in it lies the only possibility of living like human beings with dignity. After all, despite all the media campaigns they unerringly rejected all the talk of reforms and liberalisation and the images of 'shining India', in successive general elections because they found it was disconnected from their daily experiences. Now that the 'shining India' model has been rejected repeatedly in elections, we must have the courage to pursue the alternative model of development in practice.

It has already been pointed out that an important aspect of focusing on the size of the domestic market is

to counter the obsession of cutting costs through measures like wage restraint and downsizing the labour force. These are based on a misleadingly narrow view of efficiency, which is counter-productive for our development. It might be micro-economically efficient for an individual corporation, but it is macro-economically inefficient for the economy, in so far as it reduces the size of the internal market through lower purchasing power. This economic logic cannot be countered by the claim, often made, that the decrease in domestic purchasing power can be compensated in the Indian case by a corresponding increase in export surplus or higher private investment. As a matter of fact, because investment and export have far lower quantitative importance, and statistical weights in India's national income compared to consumption, simple arithmetical calculations suggest that this is most implausible. For this to work, we would require infeasible increase not merely in export, but in the export surplus (i.e. excess of export over import) requiring exports to increase much faster than imports for several years. As already mentioned, it also ignores the uncomfortable fact that all nations cannot be winners at the same time in the zero-sum game of competitive cost reduction for producing an export surplus. Moreover, the drive for so large a magnitude of export surplus for a large country of India's size would have serious repercussions on our south Asian neighbours. The question must be raised as to why we still want to go down this awkward path of relying more and more on the external market beset with so many difficulties, despite its anti people cost cutting policies, when the better option of depending more on the expansion of the domestic market is available.

We are now in a position to identify the main

parameters that would characterise our road to development with dignity in India. These parameters provide the policy framework, and the basis for formulating our economic policies.

First, greater attention must be paid to the size of the domestic compared to the foreign market. This means rejecting the TINA syndrome, that is, There Is No Alternative to globalisation. The alternative consists in working out the optimum degree of openness to the world economy to balance the requirements of the country in terms of the internal and the external market.

Second, the relative importance of the internal and the external market must be derived primarily from the objective of moving rapidly towards a full employment society. Employment, in turn, means giving income to the people to expand their purchasing power, and the size of the domestic market. On the other hand, it also means their engagement in production. This is the essential economic content of participatory democracy: the right to regular income for a decent living, and the duty to contribute to social production.

Third, viewing participatory democracy in terms of its economic content also makes it clear how the narrow view of 'efficiency', which merely amounts to cutting costs of business or of government, turns out to be unproductive. As already argued, the obsession with reducing cost results arises mostly from trying to expand the share of the external market, and keeping the stock market happy. It typically results in anti-poor policies in the name of labour market flexibility, lower government expenditure on economic and social development, and even shedding labour for higher productivity. More importantly, these policies tend to depress the size of the domestic market making development with high employment and

participation impossible. And, this is precisely what has been happening in the name of liberalisation and economic reforms.

Finally, in this era of globalisation and liberalisation, a high GDP growth rate has been achieved mostly through higher growth in labour productivity induced by focusing on cost reduction. Since most of the growth has come from higher output per worker, the number of employed workers has not increased much. As a result we have been experiencing nearly jobless growth. To break out of this trap of slow employment growth, we must recognise the most obvious thing we have lost sight of: *higher productivity is desirable not merely to cut production cost, but because higher productivity would provide us with more goods and services for a better standard of living for all. This can happen only if higher productivity goes with more employment at satisfactory wages.* From this point of view, a minimum wage in the vast unorganised sector of India is not merely an addition to cost, it is also a major source for expanding domestic demand. Like beauty, cost is in the eyes of the beholder. Wage is a cost the employer has to bear, but it is income for the worker; profit is income for the employer, but is a burden, which the worker feels he is obliged to bear. Narrow-minded policies focusing on 'cost' reduction fail to see that cost is a concept defined in a particular social context of contending economic interests.

V

FOR A DIFFERENT KIND OF DEVELOPMENT

At the economic core of participatory democracy lies the notion of reciprocity. All citizens would have a fair share in social consumption with the right to a minimum income. At the same time, they would have an obligation to contribute to the social production. Participatory democracy aims at giving the poor a sense of full participation in the economic life, both as producers and as consumers. This is the only way to bridge the gap between our political democracy, and its gross economic distortions. It is possible to do so by moving rapidly towards a full employment society. Indeed, this is the only way open to eradicate the poverty and indignity around us in a reasonably short time. Development with dignity would become the process by which political and economic democracy is brought closer through higher productive employment for all. However, employment must be defined appropriately for this purpose. It has to be the driving force of a process sustainable over time, without lapsing back from time to time into poverty and unemployment.

For the individual, employment provides him (or her) with an income, and a livelihood, as he or she spends

this income on various goods and services. This is the connection between employment and consumption demand. If the spending is on domestic goods and services, it adds to the size of the domestic market. If the spending is on foreign goods, then the imports subtract from the size of the domestic market. The expenditure by the foreigners on domestic goods, i.e. our export adds to the size of our domestic market; but our import subtracts from it. Therefore, the level of export surplus or trade balance, i.e. the excess of export over import is the relevant magnitude contributing to the size of the domestic market.

Since independence, India's foreign trade has almost always had a negative trade balance, amounting in the year 2004 to some 62 thousand crores of rupees, or over 2 percent of our GDP. Our domestic market size gets smaller in proportion to the deficit in trade. However, this is partly mitigated by various forms of remittances made by Indian firms and workers earning abroad, in so far as they add to the purchasing power of domestic consumers.

Aggregate demand, consisting of expenditures on consumption, investment and trade deficit, determines the size of the domestic market. However, demand is only one side of the story. For the society, employment must also mean production, and it provides the supply side of the story. When adequate goods and services are produced, the aggregate demand matches supply. Very often, there is a mismatch, either there is too little demand and production capacities lie under utilised, or the economy is supplying to its capacity with full employment of resources in one sense or another, and cannot meet the demand. Economists analyse them as disequilibrium situations with consequences that are debated among them. Many of the differences among

economists about policies arise on this account.

Be that as it may, employment must be seen as a concept that relates both to income on the demand side and to production on the supply side. At the micro-economic level of the firm, it translates to the concept of wage income for the worker, and as labour cost to the employer. The employer has to sell at a price, which covers his costs to make a profit, which is the employer's income. The situation is now reversed. The worker might think of profit as the 'cost' he has to bear for being employed, just as the employer thinks of wage as the 'cost' of employing the worker! These opposing views are accommodated in the concept of labour productivity, i.e. the amount of output produced by an average worker, because both profit and wage have to be accounted from this same source. How much an average worker produces, i.e. labour productivity might therefore be looked upon as the source of both wage and profit from the supply side. But this raises a deeper problem.

If the average worker produces more at the same wage (as in the case of 'downsizing of the labour force' discussed in the last chapter), it would reduce the labour cost of producing a unit of output. Therefore, higher labour productivity at the same wage would seem to increase the profit of the employer. However, this is only the potential, not the actual profit. In order to realise that potential profit into actual money profit, the employer has to be able to sell the additional output due to the higher labour productivity. For instance, if an average worker produces 10 bushels of wheat, and gets a wage of 6 bushels, then 4 bushels are the surplus over wage per worker. This is potential profit in bushels of wheat per worker. If labour productivity is higher, say 15 bushels per worker, potential profit at the same wage rate per

worker rises to 9 bushels (15–6). The higher surplus of 9 bushels as potential profit per worker would require a larger market in which it can be sold. Only then, it would be realised into money profits. Otherwise, despite higher labour productivity and efficiency, part of the wheat output will remain unsold. And profit in money terms may turn out to be lower rather than higher. As a result production and employment in wheat production may be cut down in the next year. This is the problem of insufficient demand despite increased efficiency in production. When foreign demand does not rise adequately to absorb all the higher output produced from higher labour productivity, it has to be absorbed at home through an expansion in the size of the domestic market in order to avoid its detrimental effects on profit and employment. From this point of view, the expanding size of the domestic market plays a critical role in the realisation of higher monetary profit from higher labour productivity.

The neat division of labour productivity into two categories of income, profits and wages, applies mostly to the organised sector employing wage labour. In the Indian economy, this constitutes only about 10 percent of the labour force, usually the more fortunate section of the working population. Normally, the labour force in the organised sector works according to specified labour contract. The contracts often but not always specify the number of hours of work with provisions for payment for over-time work. They also specify other rights like old age pension, retirement benefits, health security, the 'hire and fire' rules, and the right to unionise. Both those who talk about reforming the labour market, and those who fight for the right of the unionised workers are usually concerned about this relatively small percentage of workers. This is the most visible sector getting the

attention of corporate India, foreign multinationals companies, the media, and even of political parties. However, this is not the land most working people in India inhabit. They live in a shadowy land, loosely described by amorphous definitions like the unorganised or the informal sector of the economy. Some 90 percent of India's working population earn their livelihood in that sector, and it covers most of agriculture, small industries, petty services related to trade, transport and commerce. Most of them work without any formal labour contract.

One could easily pick out at least three major characteristics of this informal sector in terms of employment. First, many of the people are self-employed. As a result, their productivity or total earning cannot be separated easily into distinct categories like profit and wage. Second, the hours of work are often not fixed. This is true not only in the case of the self-employed but even for those who work for a wage. As a rule, the poorer they are in this informal economy, the longer the hours of work to eke out an existence. Third, income is frequently earned from combining multiple sources, which in turn tend to lengthen the hours of work. In short, the informal sector is informal in terms of the length of the working day, the sources of earning, and the rights and securities of those who work there. And, these informalities by and large work largely against the workers in that sector. There is no more telling example of this than millions of child labourers in this country.

Generally, poorer workers in the informal sector have a very low earning per hour, and therefore despite working very long hours, often in different jobs, make little income. A person might be considered as employed because he spends many hours working, but is unemployed in so far as his income is too little to qualify him as

employed. Another person who is earning income as employed is not necessarily contributing to social production. In short, there are several possible inconsistencies that arise in measuring employment in terms of income, production, and time disposition.

The discussion above makes it clear that employment is not a simple, one-dimensional concept, especially for the informal sector. It might appear so at first sight, only because most of us are accustomed to think of employment in terms of the organised sector, which leaves out almost 90 per cent of the working population in India. And, because there is no simple way of defining employment in the overwhelmingly important informal sector, employment in the Indian context must be a composite concept, combining several aspects.

A composite concept of employment requires from the demand side every person to have the right to a minimum income from his or her work, giving the minimum purchasing power necessary for a dignified human existence. From the supply side, it requires that they contribute to production, so that aggregate purchasing power from the income is balanced by the availability of goods and services produced. At the same time, the length of the working day has to be reasonable. Full employment in the Indian context should mean that all Indian citizens have the opportunity for employment under these conditions.

The natural first step in the process is to offer wage employment opportunities to all at a legally stipulated minimum wage. Those who do not accept would usually be relatively better off. A small peasant or petty trader may not work for the minimum wage offered, because they expect to make a better living without it. However, in case their expectation fails to materialise, they would

always have the opportunity to work for that minimum wage. This simultaneously achieves two objectives. First, those who really need the minimum wage would 'self-select' themselves to work at that wage. This would avoid many bureaucratic problems and corruption in defining who needs the job. Second, it would also provide indirectly a wide cover of social insurance to the most vulnerable sections of our population. It would be their fall back position in terms of alternative employment opportunity, even if they do not need to take up the offer in normal circumstances.

Any insurance scheme, which is based on the chance factor and two parties with different interests, has awkward possibilities. One of the parties might try to take unfair advantage of the scheme, giving rise to a sort of 'moral hazard'. For instance, in a universally guaranteed scheme of employment at minimum wage, a worker might refuse to work, get fired, but shift elsewhere to take advantage of guaranteed employment. However, this is unlikely to be a widespread practice, as most employment opportunities in the rural areas are provided locally. The worker will not gain monetarily from changing jobs, he might even lose monetarily by being forced to work in a far away place. The general issue of moral hazard associated with insurance schemes, which may be more important in the case of say crop insurance for farmers, would be an issue of minor importance in so far as the scheme of universal employment at the minimum wage is concerned. The scheme has a double advantage: through self-selection, and provision of an insurance cover reaching the poor without the need for supervision, it would reduce sharply the administrative costs.

The positive social impact of the scheme is likely to be even more important. It would empower workers in

the unorganised sector to resist unfair treatment more effectively, because they would have an alternative employment opportunity. Even without traditional trade unionism, it would strengthen the rights of the poorest working people. As a result, various forms of gender, caste and religious discrimination in the work place can be resisted more effectively. Indeed, what hundreds of legislations, and isolated efforts, have failed to achieve for ensuring the rights of the poor and the vulnerable in independent India, we might be able to achieve more effectively through this single scheme.

However, the reader may well ask, is this not like building a castle in the air? Can a poor country like India afford to have a universal employment guarantee scheme at a legally stipulated minimum wage? To answer this question, we need to look at two aspects of the question separately: the real aspect, i.e. what it means for the economy in terms of real goods and services, and then its monetary or financial aspect. Government economists and finance ministers usually take pride in being "practical men", and consider only the financial aspect. This is bad economics, often amounting to no more than book keeping arithmetic, and can be misleading in many situations. As a matter of fact, without careful economic reasoning, such an approach may lead them to commit the logical mistake of a "fallacy of composition" as pointed out in the last chapter. It confuses the micro-economic logic of an individual with the macro-economic logic of how the whole economy works. The economic logic of the individual is easy to understand, because it amounts to book keeping, or budget making by a household or the government. So this financial aspect looks commonsensical. But it can go wrong when thinking about the whole economy in real terms. Therefore, let us

turn first to the real aspect of this scheme for guaranteeing full employment at a legally stipulated minimum wage.

The viability of the scheme has a short term, as well as a longer-term aspect. The long-term aspect depends on matching the demand aspect of giving wage or purchasing power to the unemployed with the production or supply from higher employment. Suppose 1000 additional persons are employed by this scheme at a daily wage of 60 rupees for 300 days per year. If the workers spend the entire wage bill on various goods and services, then the total demand would amount to 1.8 crores of rupees (1000 x 60 x 300). The long-term viability of the scheme would require that the additional thousand workers employed in the economy would contribute to producing directly or indirectly output worth 1.8 crores per year. Moreover, the over all composition of the output produced has to correspond to the pattern of demand. An important point to note here is that, if we consider the economy as a whole, the newly employed have to contribute sufficiently to increasing the general productive capacity of the economy, so as to make this over all matching between demand and supply possible. However, the balance has to be achieved for the economy as a whole, but not for each individual employment project.

Investment projects supporting various employment schemes would usually take time to mature, and expand the productive capacity of the economy to match the extra demand. Therefore, trying to balance demand with supply through creating additional productive capacity provides us only with a long run perspective on how things should work out. And yet, this is less pressing than the short run. We always live in the present, and without the present there is no future. This is even more so for

our democratic politicians, unless they survive for the present, they can hardly plan for the future! So, it is essential to know how things work in the short run, until the new productive capacities are created through new investment and employment projects. We might add it is precisely here that the IMF style economic management, and the "practical" policy makers tend to go wrong by emphasizing only the financial aspect. They simply assume that the income of the economy like the income of a household is given. In real terms this implies that production is given in the short run. So, if the economy wants to spend more resources on creating jobs, it must withdraw resources from other activities. However, things do not necessarily work out that way because the level of production for the whole economy is usually not given even in the short run, and certainly not in India.

In the real economy, investment for employing more people will involve construction activities of various kinds, which in turn will require steel, cement etc. At the same time, workers would buy mostly food and clothing with the wages they receive. Then, at the next round the employers and employees who supply the steel, the cement, the food, and the clothing would buy with the profits they make and the wages they earn, more goods and services. This is a process, which goes on in many rounds rather quickly dwindling in size at each round. Economists call it the 'multiplier mechanism'. The important point to note is that we have at present excess capacity in steel, in cement, in textile, and grains stored in government warehouses. We even have rather large accumulated foreign exchange reserves, which can act as buffer in case some goods turn out to be in short supply. In other words, there is no obvious physical constraint in the real economy to expanding production even in the

short run to a considerable extent. This would happen through the utilisation of existing excess capacity in a range of relevant industries in response to an expansion of domestic demand. In so far as the real economy is concerned, we are in a position to meet the expansion of domestic demand from higher employment in the short run through the utilisation of existing excess capacities of a range of industries and the grains stored in warehouses. With accumulated foreign exchange to serve as buffer, the Indian economy has seldom been in this fortunate position. We must seize this opportunity, and rely on ourselves to march towards the goal of full employment.

However, the opportunity is not being seized under a doctrine propagated by the IMF, and exemplified by our Fiscal Responsibility and Budget Management Act. It is based on the assumption that the output of the economy cannot be increased in the short run. In simpler terms, this assumes that there is no excess capacity, and no unemployment. Even if the firms producing steel or cement in our above example get more orders, there is no way they can produce more in their existing factories, without first building new factories. This view stems from the absurd assumption in the Indian context that the resources of the economy are fully employed, and output cannot expand through higher utilisation of existing capacity, even if demand and the size of the domestic market expands through higher employment.

The "practical" men in charge of our economic policies and the IMF 'experts' often try to baffle us, or perhaps themselves, with a commonsense analogy: an individual cannot invest without first saving that amount. How can a prudent government do it? The answer is simple: if demand is placed for steel and cement by the

government, and even if money is simply printed, and given as wages to workers to buy mostly food and clothing, the supply or savings of these goods will be forthcoming from existing excess capacity, and from warehouses currently filled with grains.

Meeting the extra demand for higher employment mostly from existing capacity, and using some of the foreign exchange reserve when necessary to overcome the shortages of some particular goods is of course a short term solution. Without taking recourse to this solution in the short run we cannot move towards a full employment society. However, to sustain full employment over time we must also place the problem in its long term context. This requires a more careful analysis of the nature of the projects, which would create the additional employment, and the legal-administrative framework within which the projects will be conducted. In this context, at least three different aspects of the scheme for sustainable full employment would have to be considered for its success.

First, and most important, the scheme must not be viewed as simply one of income transfer to the unemployed poor from the government. This calls for a change in the mind-set of our policy makers. The habit of economic thinking, which separates the problem of higher growth from that of higher employment, is misleading, and runs contrary to the spirit of participatory democracy. For instance, a statement which claims that, say a 10 percent growth in GDP is essential to sustain the burden of a full employment programme misses the point. The problem should be posed the other way round. Policy makers should begin by asking, what is the additional output the economy would be capable of generating under productive full employment, and to what extent it

would raise the growth rate. In other words, the growth rate must be seen as the outcome of the full employment policy, and not as an end in itself. This means that the various projects for sustaining full employment have to be viewed not as hand-outs to the poor by the government bureaucracy. This has indeed been far too frequently the case in the past; instead, employment has to be generated from genuine investment projects, which expand the productive capacity of the economy. It is a mistake to think that economic growth in isolation, however high, can give dignity to the poor. Even economic growth with some redistributive policies by the state cannot achieve this.

By contrast, economic development can give dignity to the poor only when they participate fully in the production and distribution of the product. This has always been an alien concept to the bureaucratic way of thinking, no matter whether the bureaucracy is working under a government of the Right Wing or the Left wing variety. Ideologues on neither side have faced the issue. The Left, which has relied traditionally on the apparatus of the state controlled by the party to promote growth and redistribute income, would be uneasy with such a view. Dignity for the poor, which derives from income and work as their right and not as a favour done to them by the state, gives them an independent voice. It tends to undermine centralised authority of the state bureaucracy, and of the party in power. The notion of dignity from work for the poor is even less within the horizon of possibilities of the market-oriented reformers. For them the poor and unemployed are no more than a problem created partly by the 'efficient' working of the market. At best, they condescend that the problem needs to be dealt with through various doles for the poor and the unemployed.

According to this view therefore, we require a high growth through liberalisation to provide for the doles to the poor. Both these mind-sets, of the Left and of the Right, are counter-productive. The poor are not the problem; they are part of the solution. A distant bureaucracy, a centralised state or the mythical efficiency of the market and the private sector cannot solve the problem for them. The initiative must be largely with them to solve their problem.

Second, for sustainability over time, genuinely productive projects involving the poor need to be identified and designed. They must contribute sufficiently to expanding productive capacity while creating more employment. As a result, they should augment the supply of goods and services in the economy to match the additional demand created through higher employment. If this can be achieved, then the march towards full employment would not involve unsustainably large income transfer to the poor; instead they will be contributing themselves to their economic development. In this respect, the past performance of almost all government programmes aimed at creating employment and livelihood for the poor in the rural areas have been unsuccessful. The reasons for their failure are many, and vary a great deal from project to project. But there are two common elements. A distant bureaucracy planning from the top for the poor has invariably failed to design projects, which suit local conditions and meet local needs, as seen by the local participants. This necessarily reduces local participation in various ways. With little local involvement, projects have to be supervised from the top, and this usually means that supervision cost becomes a large component of the total cost. Second, the higher bureaucracy planning from the top largely remains

unaccountable, if not invisible to the local population. And, corrupt politicians find it only too convenient not to change this system. They are entirely beyond the reach of those whom they are meant to serve, and therefore are unaccountable to the poor. The problem is compounded by the absence of the elected MPs and MLAs from the local scene, except at election time. It is hardly surprising that the local populations meant to contribute to, and benefit from such projects remain largely disconnected from them, just as they remain light years away from the policy making higher bureaucracy, and the elected representatives of the people at the higher level. Accountability to the people loses much of its force, even if it exists in law. Without accountability in practice, the abuse of power and corruption are only to be expected. There has to be a break from these bleak experiences of the past. Only then the poor and the unemployed would not be a problem, but become a part of the solution to our economic problems.

We must rely on two basic pillars to improve the situation. First, the identification, design, and execution of the projects should be decentralised to the maximum extent possible to involve directly those who would contribute and benefit from them. Second, all the stages of identification, design and execution of the projects must be transparent and accountable. They must be based on procedures, which permit scrutiny by the intended beneficiaries.

Despite all the problems with our polity, and the limitations of our nation state, India has never been better placed to launch a programme for full employment for all along these lines. We still have a very long and difficult journey ahead, but in some ways it now lies within the range of feasible politics. The 73rd Amendment to the

Indian constitution, that came into force in 1993, (also the further 74th Amendment) provide legal space for local self governance, mostly through the institution of the Panchayats.

The National Rural Employment Guarantee scheme passed in 2005 is still grossly inadequate in many ways. Yet, despite serious opposition from our economic pundits in the government and in the media, it recognises at least the importance of the problem, and provides legal space to move towards a full employment society. The Right to Information Act at the all India level (expected to come into effect by October, 2005) would provide a legal basis for demanding transparency and accountability at various levels, including that of the financing and execution of employment generation projects. We all know that law on paper has never been a solution in India. But we should also recognise that, popular mobilisation and movement for a full employment society with dignity for the poor have become at least legal, if not easier, because these laws now exist.

The essence of decentralisation is a clear demarcation of electoral constituencies, authorities and responsibilities. The lines of demarcation between the authorities of the central government and, of the state governments have become clearer over the years, though many gray areas still exist. Although the demarcation was outlined in the Indian constitution, many of its practicalities emerged only gradually through a long historical, and often tortuous process. In contrast, the acceptance of panchayats as the mainstay of local self-government has been slow in coming. It appeared only tentatively under the 'directive principles of state policy' in the Indian Constitution (Part IV, Article 40), and until the approval of the 73rd Amendment in 1993, the panchayats were not

recognised as having any autonomous function. As a matter of fact, even though the 73rd Amendment recognises the importance of the panchayats and mandates the preparation of a 'village area plan for economic development and social justice', this process has hardly begun in any seriousness except in one or two states in the country. By and large, in most states Panchayats continue to be considered as mere administrative instruments for implementing policies of the state governments without any real autonomy. They are given the task of carrying out the orders of the state government, rather than formulating, and executing policies. Until this is changed, and we recognise that India has a three-tier system of representative government at the levels of the centre, the states and the panchayats, with autonomy demarcated clearly at each level, the process of development cannot really be decentralised meaningfully.

Decentralisation through the panchayats could bring about an enormous change in the way our democracy functions. The two houses of the parliament together have 790 members today. The 28 state assemblies and two union territories with assemblies have 4,173 members. In the new system of local government envisaged by the 73rd and 74th Amendments to the Constitution, 532 district panchayats, 5,912 block panchayats, and 2,31,630 gram panchayats, together with 95 city corporations, 1,436 town municipalities and 2,055 nagar panchayats would have elected representatives altogether numbering around 30 lakhs. This is not only a change in the number of representatives. It could provide a way of deepening our political democracy by making it more direct. It could create the possibility of introducing greater accountability in governance by making it more sensitive to the needs of the people. Economic development cannot become

sensitive to the local needs without direct participation of the local people. And accountability might become more feasible because the elected representatives to the panchayats are usually more easily within local reach. These are essential preconditions necessary for participatory democracy. And, only participatory democracy would provide the foundation for development with dignity.

The broad strategy of initiating this process of development would consist in devising an imaginative combination of rapid expansion in the domestic market and purchasing power of the poor people with their participation in building decentralised productive capacity. This has to be done mostly at the level of the gram and nagar panchayats. In broad outlines, the expansion in purchasing power would come from public works financed initially, if necessary, through deficits of Central and State budgets. The public works could consist of projects relating to a range of activities like rural communication, warehouses, local water management schemes, watersheds, school buildings, health centres, local forestry work etc. So long as excess capacity exists, the increase in supply would come both from better utilisation of capacities in the short run, and additional productive capacity created in the longer run through these new projects. However, particular projects must remain mere illustrative examples. It would be a contradiction on our part to list out in any detail the possible projects, since they have to be sensitive to local needs decided by local people. It would also be upto the panchayat to determine how much outside help is needed in any particular project. For this to be at all possible, the Panchayats have to have full financial autonomy and responsibility to design, and implement projects subject to

the crucial condition of transparency. Transparency in the execution of the projects would be achieved only when the participants in a project begin to monitor its progress in their own self-interest. Unlike the situation today, if the panchayat have autonomous decision-making power over a larger budget, local involvement would increase, as members would have considerable self-interest in seeing that the right projects are chosen.

We have been used to the idea that transparency and accountability through the right to information are needed only to check corruption in various forms. But transparency is also needed to change our mind set, to combine the right to employment and income with the responsibility and obligation to contribute to social income through work. This can be most easily seen when the project chosen generates a local public good, which is expected to benefit mostly the workers engaged in building it. For instance, consider a primary school or a local warehouse, which would store grains for the lean season. The worker employed in building it would have an interest in monitoring its progress, if their children can go to the school, or if a warehouse provides them with cheaper food in the lean season. And, this provides us with an important rule of thumb in decentralisation through local public works. It is simply that, those who benefit from the construction of a project should be involved as far as possible in monitoring it. It would be the responsibility of the elected panchayat representatives to ensure this by choosing the project in a transparent manner.

One of the important benefits of the above rule of thumb could be a degree of quality control of local public goods through the self interest of the participant workers in the project. This would also introduce a

notion almost unknown in India. Many local public goods like the construction of the building of a local health centre, a primary school, a warehouse, drinking water facility, sanitation, work on local forestry and village common resources, etc., can be a supplement to the standard of living of the local workers. In this sense they can even become a component of 'social' wage supplementing 'private' wage. And, if the projects are well executed, the standard of living of the workers involved can begin to improve even without an increase in the money wage. It should be stressed that these possibilities are realizable only when public works are decentralised with autonomy and accountability at the level of the panchayat.

One of the most serious dangers that can derail the full employment scheme is an indefinite one-way income transfer to the Panchayats. Unless local investments enhance local production and income generation capacity through decentralised works, and contribute to increasing the overall growth rate of the economy to make more resources available to the central, state and local governments, the strategy of moving rapidly towards full employment will not be sustainable. Consequently, while the local bodies would have autonomy in planning and executing projects, they would also have to take the responsibility of increasingly financing these projects.

Recent all-India data show that the rural non-farm sector has provided most of the recent increases in employment in rural areas with its share in employment increasing from about 17 per cent in 1977-78 to nearly 24 percent in 2000. Moreover, on an average, the productivity and income per worker is considerably higher in the non-farm compared to farm activities. From various field surveys and analysis of data, it appears that the main driving force for generating non-farm employment is not

agriculture, but rural infrastructure. The growth of employment in services in particular is highly dependent on the availability of infrastructure. Decentralised public works can help create a range of local infrastructure, linking it with the larger infrastructure facilities, e.g. side roads, smaller warehouses, feeder canals etc. While the panchayats would have the freedom to choose the projects, the above discussion suggests a second rule of thumb. Quick yielding projects with potential spin-off or externalities in terms of generating employment in the rural non-farm sector should be favourably looked upon, in so far as they raise local income generation and enable the panchayats to increasingly finance their own activities through taxing their members. Quick yielding projects are also important to judge whether a Panchayat is capable of carrying out a task. Long yielding and more expensive projects should be discouraged as a general rule until a panchayat has been able to establish a satisfactory track record.

This brings us to the third, and perhaps the most controversial aspect of how to raise resources locally to support decentralised employment generation schemes. With land privately owned, in many cases it would be difficult beyond a point to do useful public works without encroaching on private land. Workers employed under the guaranteed employment scheme may be allowed to work on private land provided (a) the private owner pays a major share of the wage bill decided by the Panchayat, and (b) the work on private land is seen to have some positive spill-over or externalities to benefit the local community. This would be upto the elected representatives of the panchayats to take these decisions in a transparent manner. This gives us the third rule of thumb in decentralised employment generation. The

person who benefits should pay some proportion for the work involving private land, while the extent of payment would be modified according to the positive externalities generated by the project. Moreover, these works would be undertaken when suitable local public works are not available.

The three broad guidelines for identifying projects at the local level without compromising the autonomy of the panchayats could be summed up briefly.

a) Involvement of the direct beneficiaries as workers as far as possible.
b) Preference for quick-yielding projects until the track-record of a panchayat in terms of its performance capability is established.
c) Emphasis on the potential of non-farm employment generating activities of a project.
d) Use of public labour on private land in case of unavailability of suitable public project on the condition that he who benefits privately would also bear part of the cost. And the part of the cost to be privately borne will also depend on the extent to which the project has positive externalities for the local community.

We would be living in a fool's paradise to believe that simply decentralisation through the panchayats would bring participatory democracy. Despite laws stipulating that one third of the panchayat members should be women, and one fifth of them Dalits, the panchayats continue to be dominated in many cases by the rich, the upper castes, and the privileged. There is also political vested interests of the MPs, the MLAs, and the bureaucracy in not sharing power. However, these objections only show the barriers to any genuine decentralisation of

power that must be encountered on the way to participatory democracy. In so far as dominance by the privileged is concerned, this is as much true in the case of the panchayats as of most other institutions in the country. It can hardly be a valid argument against decentralisation through panchayats. The poor people in distant areas often point out that they are not merely dominated; they even face a kind of (what economists call) 'price rationing' against political participation. When one does not have enough to eat, or buy medicine or send children to school, one hardly thinks of spending money on travel and stay in a city. The result is political manipulation. Bus-loads of poor are brought to political rallies of all parties to hear the 'leaders', and give the appearance of democratic participation in politics. Perhaps it would be a little easier for the poor and the underprivileged to fight for their own rights in local institutions than in those distant cities, where all the higher echelons of the political office bearers and their bureaucrats sit. Nevertheless, this advantage of decentralisation to the poor is precisely what might at times diffuse the influence of political parties, and stop easy political 'mobilisation'. Decentralisation with transparency is therefore not an easy game to play for any political party, and resistance to the transfer of real power to the panchayats might even arise from unexpected quarters.

Nevertheless, it is possible to achieve development through participatory democracy, which would give the poor their due dignity by combining a legal minimum wage with socially productive work at full employment, only through decentralisation at the level of the gram and nagar panchayats. In our political system, in a country of this size and with so much of extreme poverty, there exists simply no other organisational option. This is the main

lesson to be learnt from the past failures of various government programmes in generating income and employment for the alleviation of poverty. Viewed this way, India's development is not constrained effectively by lack of money or of resources. It is the lack of our organisational capacity. And, in a democracy the solution would not come the Chinese way, which often imposes efficient but ruthless solutions on the people without their having any say in the matter. Nor does the solution lie in inviting multinationals to set up shops in India for their profits without any concern for the people involved. Our economic imagination must not fail us in identifying the real issues of organisation that need to be faced, and in devising politically feasible solutions relevant to our context. We must have the self-confidence to chart out our unique path of development suited to our specific requirements.

VI

THE 'GOVERNMENT-CAN'T-DO-IT' SYNDROME OF PUBLIC FINANCE

Economists' discussion about public finance often re minds me of the story of the drunkard. After a drinking bout with friends, the man walked back home with difficulty, and found that he had lost the key to his apartment. So he went down to the nearest street light, and started searching for his key. He went on searching without success for a long time, when a second drunkard appeared on the scene.

"Can I help? What are you searching for?" he asked.

"My key to the apartment. I can't get in otherwise".

" You sure, you lost it here?" the helpful man asked, after joining the search for a while.

" Not at all. But there is light here. It is easier to search!"

Economists tend to discuss public finance and government budget, restricting themselves by assumptions only to issues, which are amenable to their technical analysis. The fact that the assumptions are blatantly unjustified in most cases, and the issues selected are often not relevant, hardly matters to them. They want to appear indispensable as economists, as advisors to the government, as ministers or bureaucrats in charge of our

economic affairs. As the drunkard justified his search in the lighted area forgetting about the rest of the darker street, economists justify their pronouncements on public finance by highlighting a narrow set of issues, and forgetting the larger picture.

The issue that engages the attention of most economists these days is the arithmetic of the sustainability of government or public debt. The fear is that the debt might become so large that the government will go bankrupt, and will not be able to service its debt, because the repayment burden will sooner or later simply overwhelm the government. The IMF and the World Bank have worked in unison over the years to inculcate this fear in the name of the danger of high fiscal deficit. It naturally suits their market philosophy, which boils down to claiming that the less the economic space the government has the better is the level of economic management. Our politicians, government economists, and the media assume this philosophy propagated by the IMF as gospel truth. It is therefore reasonable to anticipate that the most serious objection against the scheme to guarantee full employment will be raised on this ground. The politicians bent on market oriented reforms, the economists in the government, and the media would all join in the chorus: "The government can not do it. It has no money." These are false arguments. As already pointed out in the last chapter, the problem of whether the full employment project can be undertaken has to be analysed in two steps: first with reference to the capacity of the real economy, and then the method of financing it. If the domestic economy is capable of providing most of the goods and services for sustaining the programme over the short and the long run, a method of financing it can be found. Money is after all only a very ingenious human device,

which makes the real system work.

At one level, the difference between money and the goods money can buy is simple. The domestic economy cannot produce real goods and services if the capacity to produce is not there; but a government can always 'print money', by creating liabilities with the Reserve Bank. By this arrangement, the government borrows from the Reserve Bank, and this liability of the government becomes an asset of the same value in the books of the Reserve Bank, which now creates its own liabilities to the public in the form of currency notes. Creating or printing money in this sense is no more than juggling with double entry book keeping. It is ultimately the government, which borrows from the public, but the borrowing has to be routed through the Reserve Bank; because only the Reserve Bank, and not the Government, has the authority to print currency notes. Moreover, the currency notes are 'legal tenders' in the sense that they have to be accepted in settlement of payments.

However, a fundamental difference arises between foreign and domestic debt with respect to this property of money as legal tender. By law, the Indian rupee has to be accepted in settlement of all payments, but this naturally holds only as far as the law of our land holds. A foreigner is not obliged to accept our rupee in settlement of our debt to him, unless he enters a contract to accept rupee as the mode of repayment. This is very rarely the case, because ours is a 'soft' currency that does not enjoy a great deal of international confidence. So 'hard' currency loans have to be repaid in hard currency, dollar for dollar, euro for euro, or yen for yen. We somehow have to have this foreign exchange, by exporting, receiving remittances from abroad, or borrowing.

A foreign exchange crisis is a symptom that the

government is running the risk of default, at least in the perception of the foreign lenders. However, this cannot happen with respect to domestic lenders and domestic debt, because the Indian rupee is a legal tender in so far as domestic debt in rupees is concerned. The government can always borrow from the Reserve Bank the required amount of rupees to service its domestic debt, unless the government willingly ties its hands behind on this count by law.

The Fiscal Responsibility and Budget Management Act serves precisely this purpose. It is not clear what we have gained by this Act, except to please directly the IMF, and indirectly the financial markets and the international institutional investors through the IMF. What we have lost is an effective method of financing the programme for productive full employment in India in the shortest possible time. As a consequence, the interest of the poor and the unemployed has been traded off to a significant extent by this Act in the interest of the stock exchange. Stock prices in the Indian markets tend to be sensitive to a few large institutional investors. The domestic ones are influenced by the pronouncements of the government, and the foreign ones are sensitive to the dictums of the IMF and some international credit rating agencies. When a government talks only of liberalisation and free market reforms, and the IMF insists that government deficit is the one thing that matters most in deciding the health of the economy, the Fiscal Responsibility Act becomes a signal. It is meant to send a signal to the stock market that the government would manage the economy to look after the investors in the stock market as its top priority; poverty, unemployment and similar considerations affecting the poor are less important. If any one finds this argument rather far-fetched, let him recall how the stock

market in India (the Sensex index) went into an almost free fall between April 30 and May, 31,2004 when the BJP-led coalition lost the general election to the incoming Congress-led coalition which included the Left parties. The dramatic fall in the Sensex stock prices during this period was almost entirely due to the withdrawal of funds by the foreign institutional investors. This downward movement continued until the new coalition government named a team as their economic decision-makers who are committed completely to the free market ideology. The stock market immediately started to rise. Nothing had changed on ground in the Indian economy during this period, except the unease of the stock market that pro-market politicians may not be in power. This is why the Fiscal Responsibility Act should be seen to derive its justification not from the working of the real economy, but as a coded symbol. It symbolises the fact that the government attaches a higher priority to the well being of the stock market and the major domestic and foreign players involved there, than to the well being of the poor and the unemployed in the country.

Despite this counter-productive Act, the government is not helpless. Although the Government cannot 'print money' i.e. borrow from the Reserve Bank, it can borrow from the Indian public or from foreign lending agencies like the World Bank, the IMF and foreign commercial banks. Borrowing abroad in 'hard' currency is hazardous for reasons already indicated. It creates the economic danger of foreign exchange crisis and default. But it also has a political danger. A few large lenders can and would influence the decision on how the money is to be spent. The IMF and the World Bank would certainly impose their 'conditionalities' on the Government of India. Even foreign commercial banks would dance mostly to the tune

set by the IMF and the World Bank, and they all would like the job of generating employment to be done by the private sector. As a matter of fact, when a government irrespective of its colour says it wants foreign direct investment for creating jobs, it is expressing the same sentiment. However, these sentiments and running a large foreign debt are neither compatible with pursuing a path of independent development suited to our requirements, nor with national dignity. We can certainly do better by relying on the Indian public, and the domestic market.

The ideal solution would be to amend the existing laws, and permit the government to borrow from the Reserve Bank, but subject to a very important provision. It will be borrowing on a separate account, and the money will be used directly only by the panchayats for employment generation, and for no other purpose. Nor would any other organ of the government at a level higher than the panchayat would have the power to access this money. This would be the most effective way of kick-starting a full-employment programme for India, which would create at the same time a three-tier authority of governance at the level of the centre, the states, and the gram and the nagar panchayats. Our Constitution already envisages this, but the financial arrangement to make this a reality does not yet exist. As already mentioned in the last chapter, a proposal like this would be resisted by various vested interests cutting across political parties, but once placed on the political agenda this is not altogether infeasible. Its irresistible power would come from the fact that the majority of India's poor will recognise that it is in their interest, and no political leader can ignore this in a democracy.

Nevertheless, this solution through a revision of the Fiscal Responsibility and Budget Management Act would

face stiff resistance for reasons mentioned earlier. It would certainly turn out to be rather time-consuming and difficult. Therefore, without losing sight of the ideal solution, we need to think of a second-best solution. Its main advantage would be its more immediate feasibility within the constraints of present legal and political set-up. If the government is not permitted by law to borrow sufficiently from the Reserve Bank for this purpose, it can borrow from the public at some interest rate by issuing government securities. This is what "borrowing from the market" means in the present context. Even then, in contrast to the current orthodoxy in public finance in India under the influence of the IMF and the World Bank, the borrowing would be done domestically. This is essential for our independence in decision making by avoiding the 'conditionalities' these institutions would impose. Moreover, it would weaken the tie between the Indian stock exchange and the institutional investors, and leave the government with greater space to follow a pro-poor full employment policy. Borrowing from the public at an interest rate creates the burden of servicing public debt. In principle, so long as the public has sufficient confidence in the government to buy its securities, the debt can be serviced without difficulty by a government by issuing further securities. If this way of servicing public debt until full employment is reached raises many academic eyebrows, then we should rather reach the illustrious precedence of the United States.

As a matter of fact, this way of borrowing more to service debt is precisely the method the biggest advocate of the market system, the United States, has adopted on an international scale for at least over the last quarter century. The United States is by far the largest debtor country in the world. For more than two decades now it

cannot pay the bill for the goods and services it imports which far exceeds its exports. So it has been issuing various government papers, Treasury bills and bonds among other debt instruments. They are being bought up mostly by the export surplus Germans, the Japanese, the oil rich Gulf countries, and nowadays by the Chinese. They are essentially lending to the Americans. This system can work so long as lenders have confidence in the U.S. dollar, and no other market for securities issued by another governments of a comparable size emerges. The confidence in the dollar has also been helped greatly by the fact that the U.S is the only military super power, and the European Union, Japan and, of course, the oil rich Gulf depend militarily on the U.S. The economic power of the U.S today depends more on its military than on its economic might.

It is well within the capacity of the Indian Government to finance on a national scale a full employment scheme in a similar way. It would also be a more sound method of financing compared even to the United States, in so far as foreign governments and institutions with little direct stake in the wellbeing of the Indian people would not be involved. The possibility of a sudden financial crisis that can overtake any foreign exchange market would also be avoided, because Indian rupee is a 'legal tender' for the Indian public. In a broad sense the Indian stakeholders would also be the financiers in this strategy. From the point of view of the Indian stakeholders, it is nearly certain that the economic credibility of a government does not suffer simply because it borrows more and accumulates debt to its own public, so long as the money is well spent to create employment, growth accompanied by improvement in decentralised infrastructure, and a rapidly expanding domestic

market. In establishing the credibility of the government, its economic performance in terms of employment, growth, balance of payments, etc., matters far more than the size of its public debt. As a consequence, so long as the money is well spent to achieve these objectives, there is no reason to suppose that the government would have to borrow at an increasingly higher rate of interest.

Available evidence even shows that direct foreign investments, which are genuinely intended at increasing the productive capacity of the economy, tend to be more strongly attracted by the size of the domestic market, and the level of infrastructure rather than by low wages or tax concessions. This category of direct foreign investments is also known as 'green field' investments, in contrast to various types of 'portfolio' investments which mostly change the ownership of productive assets without affecting productive capacity. There might even emerge a degree of convergence between the strategies of moving towards a scheme of full employment financed by government borrowing from the market, and attracting direct foreign investment. This goes against the existing orthodoxy in public finance. It would claim that government can borrow more from the market in the Indian context only by offering a higher rate of interest. The higher rate of interest in turn would raise the cost of borrowing and 'crowd out' private investment.

The argument is dubious, without empirical support in India. Like foreign investment, domestic private investment is also more sensitive to the expansion of the market, and of infrastructure facilities. If the full employment scheme succeeds in expanding them, both domestic and foreign investment would tend to be crowded in rather than crowded out. Similarly the argument that larger government spending through borrowing, which

goes under various accounting definitions of 'fiscal deficit', would create inflation has found no empirical support in the Indian experience. An important reason for this is the ability of the real economy to respond positively to higher demand with an increase in the level of production of goods and services, rather than in their prices. It was pointed out in the last chapter that existing excess capacity in the real economy makes this possible. Since the real economy seems able to meet the challenges of the full employment scheme to a large extent by providing more goods and services, the financing of the scheme becomes mostly an issue of getting the financial institutions reorganised to serve the purpose.

A barrier to achieving financial reorganisation by expanding the borrowing facility for the government from the Reserve Bank would arise undoubtedly from the current academic orthodoxy in public finance. And yet, academic orthodoxy in economics establishes itself not by reason, but by direct and indirect support from powerful vested interests. Ideological hostility to a larger economic role of the state to serve public interest in any way has been the essence of the world-view guiding these interests. It is propagated directly through institutions controlled by the conservative governments of the rich countries led by the United States, like the IMF, the World Bank and the WTO. Academic orthodoxy in public finance, which argues that 'can't do' governments are the wisest, tries to articulate more precisely this view in terms of several objections. The list of objections is long. In its most open political form, it objects to the encroachment by the state on the freedom of the individual. In its economic form, it objects to the over-expansion of an inefficient public sector, to burdening the future generations with debt, to igniting inflation, or to heading for an

unsustainable burden of public debt. These objections against a government financed full employment scheme will be raised in various guises in India. Therefore, these objections need to be discussed briefly , not in the abstract but in the specific Indian context.

If we have the eyes to see, and the ears to hear the poor, we would immediately see that the main political thrust of these objections in terms of individual freedom is irrelevant. In India we are surrounded by devastating poverty with nearly one third of the population living in sub-human conditions. To deny them a livelihood in the name of their freedom is absurd. It might be a debate worth having in the context of another country. It is not a debate relevant to us.

A second line of argument claims that the private sector is necessarily more efficient than the public sector. It covers a range of issues. To begin with, it makes the mistake of assuming that the public and the private sector are necessarily in competition in all situations. This is incorrect even theoretically, because the level of production in an economy is not given, but usually expands with higher demand. More public investment expands demand, and therefore the volume of production of goods and services in the economy. From higher production and income, more savings are generated to finance the public investment to a large extent without crowding out private investment. Instead, the larger market created by a higher level of public investment often stimulates private investment. For this reason, we often find in the Indian context that public investment 'crowds in' rather than 'crowds out' private investment.

The assumption that the public and the private sector are always competing, amounts to saying that the private sector would naturally occupy the economic space

vacated by the public sector. In many cases this would not happen, because a significant part of the benefits of many public sector activities related to public goods cannot be captured as private profit. For instance, if the working population has better health, education and training, or the physical infrastructure is better, many private and public enterprises in the economy tend to benefit simultaneously through a general spillover effect. However, when a particular private enterprise provides any of these services, it would usually not be able to capture the entire benefits in terms of private profits. Suppose a private enterprise instead of the public enterprise is invited to provide better health or education to the population. Other enterprises would take advantage of employing healthier or better educated workers without sharing the investment cost involved in providing those services. Spillover or externalities of these sorts are intrinsic to many public sector activities, especially public utilities like water, power, basic health care, education, research etc. They cannot run satisfactorily on the basis of private profit motive. In the presence of externalities of public goods, the handing over of essential services like water or power to private sector becomes particularly problematic. A private firm can then act as a natural monopolist, and charge very high prices for an essential service to capture the externalities. But this would be a disaster for the poor. They would not be able to pay for even if the service is essential. It would also be a recipe for disaster for any politician who has to face popular verdict in an election. It is worth remembering that most economic and social infrastructure has similar externalities. Waiting indefinitely for foreign or domestic private investment to provide us with the necessary infrastructure or handing over its management to a multinational,

instead of financing it through a larger budget deficit is, therefore, bad economics and unwise politics.

The public versus the private sector debate is marked also by a certain lack of economic imagination. When a large corporate enterprise performs badly in the private sector, its management may be changed (though it seldom happens in the Indian corporate world), even the ownership might partly be changed through selling shares. When a public sector enterprise fails, the options are more, but we do not seem to have the imagination to pursue them. For example, it is possible to consider various schemes of workers participation in the management or ownership of a public enterprise. The arrangements for sharing responsibility can be achieved through many possible variations, combining various degrees of ownership rights with the use rights. Unlike the private sector, enterprises in the public sector have these possibilities open to them. Without exploring those options, it is not singularly unimaginative to pose it simply as an either-or, binary choice between the public and the private sector.

At the empirical level, for every disastrous failure or inefficiency of the public sector one could point to similar failures in the private sector. Who can forget the ENRON episode, done with the connivance of senior bureaucrats and politicians at the decision making level? That fiasco is nearly unparalleled, when compared with the worst public sector inefficiencies in this country! It should have been an eye opener for all those politicians and bureaucrats who still claim that foreign consultants and foreign private investment necessarily bring better management and technology.

Very few systematic empirical studies exist in India in this area. In a recent, through statistical analysis of some of these issues, the author Ram Mohan finds that the

private sector's overall performance in terms of various financial and physical criteria of efficiency was superior over the longer period 1989-2000. Interestingly, however, during the most recent period of 'high liberalisation' (1995-2000), he could find little evidence to suggest that the performance of the private sector was better. Incidentally, in the course of the argument, evidence is also presented to dispel a common belief that China has privatised more boldly at a faster pace compared to India.

Viewed without ideological blinkers, the basic issue about privatisation is simple. Privatisation might work when several essential supporting conditions are there, just as the public sector might also work efficiently under certain conditions The common factor in all these conditions is the ability to regulate the working of the public and the private sector, and the entire process of privatisation in a transparent way through the right to information, and fixing responsibility and accountability on the basis of that information. Returning to the ENRON example, no responsibility has been fixed so far by the Indian government as to how such biased decision could get taken. To avoid this simple fact, and convert everything into public versus private sector debate is motivated escapism.

Another objection to deficit financing claims that borrowing by the present generation leaves the future generations indebted. The argument sounds like a cruel joke in the present Indian situation. Our children, the immediate next generation of Indians, are badly nourished, and badly educated. There are millions of child labourers in this country without a future; and millions of children blinded and crippled by malnutrition. According to available estimates, almost half of Indian childrer suffer from under-nourishment, 20 per cent of rural

children are severely undernourished. The latest Human Development Report (2005) points out that the nutritional standard of the poor children 'barely improved' over the last decade despite high growth. Improvement in child mortality rate slowed down with one in every eleven children dying before reaching the age of five due to the non-availability of the simplest of medical care. This happens not in distant rural areas, but in some of the southern cities of India, which pride themselves on their much talked about information technology boom. One in four girls and one in ten boys still do not attend school, perpetuating deep-rooted gender inequalities through generations. When we cannot look after our children, our very next generation, it seems utterly idle to talk academically about the danger of public debt for the distant future generations. The over-riding immediate question for India is simple. Would a larger budget deficit improve the living conditions of this generation and, of our children? We would have time to worry about the as yet unborn future generations, once we have come to grips with the over-riding problem of the day.

The argument about the future generations is also analytically flawed. It derives from a misleading analogy between an individual household and the nation as a whole. The proposition looks micro-economically plausible, but turns out to be macro-economically misleading. It was pointed out earlier that the Indian economy has significant excess capacity in several areas. A higher level investment financed by a larger government budget deficit would raise immediately the level of production and income through better utilisation of existing capacities. The saving of the economy is raised through the increase in production in the short run, and the borrowing by the present generation is paid back largely through higher

saving by the present generation. To that extent, no intergeneration transfer is involved.

The fear that budget deficit would cause inflation has been empirically groundless in India. A similar fear is voiced at times that a full employment policy would tighten the labour market to such an extent that it would trigger off inflation through higher wage claims. This seems besides the point in the present context. The stipulated minimum legal wage at which all Indian adults will have the right to employment would 'self select' the poor precisely because it is lower than the normally paid wages. Being a 'floor' wage, it will not attract people who are employed at higher wages, nor would it strengthen their bargaining power to claim higher wages. The scheme would have little direct impact on the working of the rest of labour market because it creates in effect a segmented labour market. Only those who are paid abysmally low wages, like women discriminated on the basis of gender, Dalits against whom the higher castes gang up to lower the wages would have a stronger bargaining position. This is precisely one of the objectives of this full employment scheme. It will help them to fight unfair discrimination, give them dignity. The fear of inflation through an over-heating of the general labour market is misplaced because it confuses full employment created through this scheme with full employment that arises from the tightening of the general labour market.

The objection most frequently raised in India against a larger fiscal deficit relates to the problem of servicing debt. At present (2004), interest payment and related servicing cost of public debt is around 130 thousand crores of rupees, nearly 40 percent of the (non-plan) expenditure of the Union Government. The fear frequently expressed is that if we go on increasing our public debt, it would

soon engulf the whole expenditure of the government. So, how long can the government continue to indulge in fiscal deficit?

It is a badly posed question for two reasons. First, if the government were permitted to borrow from the Reserve Bank directly, amounting to 'printing money', the servicing burden could be far less. Therefore, we should ask instead the question, how wise is it to tie the hands of our national government to act against widespread poverty and unemployment by sticking to the Fiscal Responsibility and Budget Management Act? Whose interest does it serve? Second, a government is not like an individual, not even like a large corporation. So long as a government remains economically credible in the eyes of its people through its economic performance, it can issue more securities to service its debt without having to offer higher interest rates on its securities. There is no ground to believe that a government's performance is judged solely or even primarily by the size of its public debt. Most people judge the credibility of the government by many other criteria like political stability, unemployment, opportunities for social mobility, growth, balance of payments position and so on. The view that the size of the public debt and the level of fiscal deficit of the government are all that matters in making a government's economic policy credible is no more than a cleverly constructed campaign to minimise the economic role of the state. It is economics in the service of an ideology, which is fundamentally hostile to an economically pro-active government. It is hardly a surprise that this ideology is propagated by the IMF and the World Bank with all the resources and energy at their command. More pathetic is the fact that our economic pundits in the government, the academic and in the

media are quick to accept them uncritically as the gospel truth.

The view that fiscal deficit is dangerous is often dressed in mathematics in academic writings. It uses a framework of 'methodological individualism'. The method finds it convenient to forget that the society has many different, at times conflicting economic interests; instead it pretends that the society is homogeneous. A homogeneous society means that a 'representative individual' can serve as a proxy for the whole society. He or she represents a big industrialist, an unemployed worker, a politician in power desperate to win the next election, a poor rural woman spending long hours of unpaid work only to receive indignity in return, as well as a child labourer working day and night without enough nutrition. By assumption, this mysterious representative individual is also armed with perfect foresight into the future, and unfaltering rationality. Knowing all the future to come, he optimises relentlessly to make the best possible choices. And, now hold your breath: the conclusions derived from this model are supposed to tell us how the market economy works! By this method, the assumptions are so fixed that the choices made are always optimal. So we are told that the market economy leads to an optimal situation. The purpose of this theory is not to understand how the market system works. It aims to propagate the ideology that the free market system is the best of all possible worlds; indeed, the market works so well that any economic interference by the state is counter-productive. 'the practical' men in power, politicians and their advisors, as well as media persons propagate this view at times in self-interest, but at times also because they are unaware of the absurd assumptions needed to sustain this view.

Holding on to a view like this leads to a kind of self-inflicted paralysis of public action in our poor country. And yet, the argument appears superficially appealing and commonsensical because it treats the government like an individual. Our commonsense says it is unwise for the individual to borrow too much. Therefore, it is claimed the government should not do so either. This appeal to 'commonsense' ignores an obvious institutional feature, namely the ability of the government to 'print' money through the Reserve Bank by suitable amendment to the Fiscal Responsibility and Budget Management Act. It also bypasses the question as to what determines the economic credibility of a government. Would the Union Government actually lose credibility to the Indian people, simply because it borrows more even if its general economic performance keeps improving?

The central issue of the sustainability of domestic public debt is posed usually by ignoring all these issues which make the government different from an individual. The problem then becomes relatively simple. Suppose the government borrows, and invests it like an individual. Investment through increased borrowing would expand income (GDP), but it would also increase the burden of servicing debt. So it becomes a race between the rates of growth of income and of the servicing of debt through interest payment. It is easy to show that unless the growth rate of national income is greater than that of the interest rate, the ratio of debt to income would rise indefinitely, making the servicing of the accumulating debt ultimately impossible. Therefore the critical condition is that the growth rate of GDP must exceed the rate of interest for debt to be sustainable over time. It should be added that if foreign debt is serviced through foreign exchange, earned through excess of export over import, more

stringent condition need to be satisfied.

In this simplified analysis, the rate of growth of GDP would need to exceed the interest rare at which the government borrows. The determinants of the growth rate are many. However, economic analysis sees the growth rate as dependent on the productivity of investment, and on the share of investment in GDP. A serious lacuna of the standard view is to treat the productivity of investment as a technological datum. If excess capacity and unemployment exist, more investment by creating a larger domestic market can raise capacity utilisation, and therefore the productivity of investment. For instance, suppose a shoe factory is set up with an investment of say Rs. 3 crores producing on an average an annual output of Rs. 1 crore. This implies that the productivity of this particular investment is 1:3. Suppose further that the full employment programme creates more demand for shoes, and the factory doubles its production to meet the demand. This would raise the productivity of the same investment to 2:3. It would be a mistake to assume in general that the productivity of investment technologically given at 1:3, and cannot be influenced by the state of demand. In many industries in India the productivity of investment could rise in this manner due to higher capacity utilisation through the expansion of the market under the full employment programme. Standard theory misses this obvious point because it assumes that there is always enough demand to ensure the full employment of all the resources in the economy. It is an untenable assumption in the Indian context. We also need to remind ourselves that the overall productivity of investment depends on how the investment is distributed among the various sectors. Decentralised schemes for investment using a lot of unemployed labour will raise in all

probability the overall productivity of investment. A lot of labourers employed with a few simple equipment at the level of the panchayat, would raise typically output per equipment, i.e. the productivity of investment. However, this would usually be achieved at the cost of relatively low labour productivity. One has to remember that even if labour productivity is low in these schemes, these workers as unemployed labour would have nearly zero productivity.

As a matter of fact, one could look at growth in terms of either the productivity of capital invested, or in terms of the productivity of labour employed. The former shows growth as the result of the share of investment in GDP and the productivity of investment as discussed above. This conventional formulation is not very useful for analysing full employment growth with sustainable debt in the Indian context. A more useful way is to view growth in GDP directly in terms of employment. The level of employment and the growth in labour productivity, i.e. GDP per employed worker, together add up to the growth in GDP. If the growth rate of employment is increased by 1 percent through the implementation of a full employment policy (say), the GDP growth rate would also increase, provided labour productivity does not fall by more than 1 percent. In short, so long as we are able to raise the employment growth rate without a drastic fall in labour productivity growth, the economy would continue to grow faster. It would also be able to sustain debt at a higher rate of interest. Our attention could be devoted more fruitfully to the problem of how to raise the employment growth rate, without allowing the labour productivity growth rate to fall instead of the misplaced emphasis on public finance. The preoccupation with some mystical fiscal deficit figure given by the IMF based on

dubious assumptions only diverts attention from the real issues.

On a conservative reckoning, about 7 to 8 percent of our employable labour force (in the 15-59 age group) remains unemployed (the available statistical measure is in terms of their 'current daily status'). This works out to a figure of about 33.6 million unemployed people. At a daily minimum wage rate of 60 rupees for 300 days of employment per year, the total annual wage bill works out to almost 61 thousand crores of rupees. It is about 2.4 per cent of our GDP, and about 7 to 8 per cent of the combined Union and the state budget. With various other administrative and material costs, the launching of a full employment programme would probably need a fund of some 3-4 percent of the GDP.

The above calculations are merely indicative, and meant to give no more than an idea of the orders of magnitude involved. At the level of arithmetic, the problem appears simple. If the GDP grows at 6-8 percent, and half of this growth could go to sustain the employment programme, the sums more or less add up. Whether it is considered feasible or not depends on whether one is an optimist or a pessimist. The proverbial pessimist would look at the glass of 6-8 per cent growth, and see it half empty due to the full employment programme. The proverbial optimist looking at the same glass would still find it half full! However this sort of arithmetic cannot get us very far. Rather it might mislead.

Even assuming somewhat better tax collection, and more serious implementation of a few more tax proposals like the turnover tax on security transactions, our tax to GDP ratio would not rise from the present level of about 15 percent to a maximum of 20 percent. This means 8 per cent growth implies only about 1.6 per cent of GDP

as additional tax collected by the government, and this falls distinctly short of the requirements of a full employment programme.

The calculation brings out the main point. If we do not fall into the syndrome that the "government can't do it" of orthodox public finance, the question of financing a programme of this magnitude has to be posed differently, indeed more imaginatively. We should not think of " growth first, and full employment later." This will not succeed in the Indian context, no matter how the growth is financed. We have to reverse the strategy to "Employment first, with growth as the outcome". With this perspective , the steps of the programme for productive full employment could be summarised briefly in the light of our previous arguments:

(i) Its financing should be done preferably by borrowing from the Reserve Bank, and amending the counter-productive Fiscal Responsibility and Budget Management Act.

(ii) The amendment would be justified, if the borrowing from the Reserve Bank is on a separate account, exclusively for the use of the gram and nagar panchayats for financing the employment programme.

(iii) This also fits in with the spirit of the 73rd Amendment to the Indian Constitution in so far as it mandates a three-tier system of autonomy in governance. If the Centre and the States can have clearly defined areas of fiscal autonomy, there is no valid reason why the elected representatives of the panchayats also should not have similar power. Decentralisation is essential for the success of the full employment programme, and decentralisation can begin only if the panchayats are not treated simply

as implementing agents for the central or the state government without authority and fiscal autonomy.

(iv) The second pillar of guaranteeing full employment through decentralisation requires transparency at all levels, the centre, the states, and the panchayats. The Right to Information Act could make a beginning in this direction. One often hears the argument that panchayats are dominated by various privileged sections of the society. It is undoubtedly true. It is also true that many are corrupt. But the argument is without merit, because it is equally true for the central as well as the state governments. It is a basic premise of democratic functioning that we do not deny the decision making power to the elected representatives, but we hold them accountable for their actions.

(v) The Right to Information at all levels is a necessary condition to bring about this accountability in our political and economic life. Many decisions like the ENRON fiasco involved decisions made without transparency at the central and at the state level. Only when transparency and accountability through fixing of responsibility are enforced at all levels, the situation can begin to improve.

(vi) A principle of symmetry has to be respected in ensuring transparency and accountability. If the centre, or the state wants to hold the panchayats accountable but refuse to be accountable themselves, this would involve asymmetrical exercise of authority. This would be unfair and unacceptable. For the full employment scheme, this means that neither the centre nor the state should have the authority to withhold these funds until an equal degree of transparency exists about how their funds are being used.

Making the reasonable assumption that inefficiency, corruption and vested interests are equally distributed at all levels of the government, we should give neither the centre nor the state the supervisory power over the panchayats. This is absolutely necessary especially with respect to projects for the full employment scheme. Many panchayats would undoubtedly fail, but some would succeed. And their large number allowing for experimentation is their advantage compared to the Union and the state governments

(vii) For regulating and monitoring the work of the panchayats, a different kind of design is required. The elected representatives of the panchayats would normally face the local community more frequently. If all the budgets of the panchayats are kept open for public inspection by law, this can create conditions more conducive to continuous accountability. While this becomes increasingly difficult with the state and the central government because of their larger administration, it is more easily feasible at the level of a panchayat . It would make most information relating to an employment project easily available, e.g. names and addresses of the persons given employment, the wage rate paid, the number of days of work done, and the total money spent in relation to that sanctioned for the project. The information can be on public display in each panchayat as a matter of routine by law, and as a pre-condition for receiving funds.

(viii)In order to ensure that the money is well spent on a project, its physical progress has to be monitored. For reasons already mentioned, this should be the job of neither the central nor the state level

politicians and bureaucrats. Instead the mechanism of supervision should rely on self-selection, and self-supervision at three levels. First, all adults who offer to work for the minimum wage should be offered employment. Mostly the poor would self-select themselves for such low-wage employment. Second, the project chosen should try to benefit directly those employed as far as possible. This would create a necessary condition for self-supervision. Since employment would be given mostly to persons from the local area, those employed in the project would also have a voting right in the choice of the project. Finally, panchayats would be told that their track record would count for receiving funds for the next project. Initially, at least, short-yielding projects and their quick completion would be critical in establishing the track record.

(ix) Finally, the money might be channelled to the panchayats through the nearest branch of a nationalised bank. When a project is completed according to the bank and the panchayat, it would count as the asset of the panchayat against which it can further borrow. The completion of the project would be certified by one or more randomly chosen bank official (not from the local branch), as well as all the elected representatives of the panchayat. While this would be one check on the physical progress of the various projects, the other check would be its sensitivity to local needs. The panchayats should have the right to charge a price or a fee for the use of a local public good to all users, except those who were employed at the minimum wage to work on the project. The main reason for this is not equity. This would also be a way of introducing the idea of the

'social' component of a 'private' wage. Through this, the workers on the project would gradually learn to demand its services and proper functioning as a right, and not as a favour done to them. Naturally, how many people pay to use the facility created by a project would be an indirect indication of the extent to which it really satisfies local needs. In determining the asset value of the completed project this should become a critical factor.

Accountability at all levels combined with productive participation by the poor at various decentralised levels can chart out the new path to our development. This is not an economic fantasy. It is the compulsion of our time, the logic of our situation. Those who believe otherwise, those who believe that the free market philosophy in a globalising world would take millions of our citizens out of the trap of sub-human poverty are living instead in a fantasy land. It is their land that is bound to crumble.

References and Further Readings

(With brief comments to guide the reader)

Statistical Outline of India, 2004-2005, Tata Services Limited, Department of Economics and Statistics provides a convenient source of most of the data.

'Employment in India, 1977/98 to 1999/00: Characteristics and Trends' by A. Vaidyanathan in the *Journal of the Indian School of Political Economy*, vol. 13, no.2, pp 217-253 will provide the interested specialist with a more detailed statistical picture of the employment situation in India.

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quantitative introduction about the nutrition deficit of India's poor.

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The Status of Panchayat Raj in the States and Union Territories of India, G. Matthew (ed.), Institute of Social Sciences, New Delhi, 2003, especially the introductory essay by Mathew, 'Panchayat Raj in India: An overview' would provide most of the background information. It is comprehensive, and covers many related issues. .

'Fiscal Deficit and Government Debt: Implications for Growth and Stabilisation' by C. Rangarajan and D.K. Srivastava, *Economic and Political Weekly*, July 2, 2005, pp 2919-2934 is a mainstream essay on the state of India's public finance. Since it makes some attempts to relate the empirics with existing mainstream theories in the field, it is worth reading.

'Budget Deficit, Sustainability, Solvency and Optimality' by M. Rakshit, in A. Bagchi (ed.), *Readings in Public Finance*, New Delhi, Oxford university press, 2005 is a carefully argued piece on the subject. It is more balanced piece of analysis compared to the ruling orthodoxy on the subject.

A special issue of the *Economic and Political Weekly*, "Aspects of Employment" November 27-Dec 3, 2004 would provide the reader with a deeper understanding of many of the issues discussed here.

'Poverty and Inequality in India: A Reexamination' by A. Deaton and J. Dreze in *Economic and Political Weekly*, September, 2002, pp 3729-48 is worth reading.

On the more general level relating to economic theory, the interested reader may like to read the following:

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'A Perspective on the Debt of Developing Countries' by R. Solomon, *Brookings Papers on Economic Activity*, 1977, no. 1 develops the analysis further along this line.

A. Bhaduri's 'Dependent and Self-reliant Growth with Foreign Borrowing', *Cambridge Journal of Economics*, vol. 11, no.3 shows how these conditions become more stringent if the debt is foreign and not domestic. The paper was written to provide a formal basis for the author's disagreement as a member of the Committee on Export Strategy for the 1980s of the Government of India, well before the foreign exchange crisis of 1991.

The article by A. Bhaduri and S. A. Marglin, 'Unemployment and the Real Wage: The Economic Basis for Contesting Political Ideologies', *Cambridge Journal of Economics*, 1990, December, pp. 375-393 would provide the interested reader with the underlying formal argument presented in this book. It captures analytically the relation between the domestic and the external market in relation to the distribution of income.